92-2228

A	ARMSTRONG PHARMACEUTICALS INC	10Q	03-28-92
B	BIG SKY USA INC	10Q	01-31-92
C	BRIAN CAPITAL INC	10Q	01-31-92
D	FIRST NATIONAL BANK CORP	10Q	03-31-92
E	FIRST REGIONAL BANCORP (CA)	10Q	03-31-92
F	FORT HOWARD CORP	10Q	03-31-92
G	NEW JERSEY STEEL CORP	10Q	05-31-92
H	NTN CANADA INC	10Q	05-31-92
I	O'CHARLEY'S INC	10Q	04-19-92
J	PDK LABS INC	10Q	05-31-92
K	PIONEER FED BANCORP INC	10Q	05-31-92
L	PLASMA-THERM INC	10Q	05-31-92
M	SALVATORI OPHTHALMICS INC	10Q	03-31-92
N	SCIGENICS INC	10Q	05-31-92
O	SCIMED LIFE SYSTEMS INC	10Q	05-31-92
P	SENTEX SENSING TECHNOLOGY INC	10Q	05-31-92
Q	TELE-COMMUNICATIONS INC	10Q	03-31-92

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

UG92-2228

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 28, 1992

Commission file number 1-4529

ARMSTRONG PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**06-0706695** (I.R.S. Employer Identification No.)
71 Elm Street **New Canaan, Connecticut** (Address of principal executive offices)	**06840** (Zip Code)

(203) 966-4170
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __.

As of March 28, 1992, there were 13,419,840 shares of the registrant's common stock outstanding.

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ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES

Page Number

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Item 1. **Financial Statements**

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ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS	March 28, 1992 (Unaudited)	September 28, 1991 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash	$2,193,417	$2,326,587
Accounts receivable	1,708,416	1,822,868
Unbilled receivables	1,363,644	1,117,552
Inventories	463,096	372,410
Prepaid expenses and other current assets	326,287	265,682
Total current assets	6,054,860	5,905,099
PROPERTY AND EQUIPMENT – Net	1,514,604	1,231,940
EQUIPMENT UNDER CAPITAL LEASE – Net	976,854	1,011,295
OTHER ASSETS	36,245	60,166
	$8,582,563	$8,208,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$589,192	$684,224
Accrued expenses	380,796	574,287
Accrued professional fees	95,922	116,418
Current portion – accrued pension expense	59,220	64,507
Capital lease obligation, current portion	231,068	246,341
State income taxes payable	87,157	123,800
Total current liabilities	1,443,355	1,809,577
ACCRUED PENSION EXPENSE – Less current portion	112,149	112,149
DEFERRED LIABILITIES	89,896	89,896
SUBORDINATED DEBENTURES	–	625,000
CAPITAL LEASE OBLIGATION – Less current portion	464,878	570,434
COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common Stock, par value $.08 per share: Authorized–20,000,000 shares Outstanding – 13,419,840 shares as of March 28, 1992 and 12,948,163 as of September 28, 1991	1,073,587	1,035,853
Additional paid–in capital	15,007,700	14,385,680
Deficit	(9,495,508)	(10,329,050)
Treasury stock – at cost	(113,494)	(91,039)
Total stockholders' equity	6,472,285	5,001,444
	$8,582,563	$8,208,500

ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)	Three months ended		Six months ended	
	March 28, 1992	March 30, 1991	March 28, 1992	March 30, 1991
NET SALES	$3,003,378	$3,654,496	$6,343,892	$6,609,666
COSTS AND EXPENSES:				
Cost of sales	1,755,945	2,602,442	3,848,390	4,646,092
Selling, general and administrative	588,837	488,734	1,131,912	927,548
Research and development	142,431	63,283	302,953	100,369
Total	2,487,213	3,154,459	5,283,255	5,674,009
INCOME FROM OPERATIONS	516,165	500,037	1,060,637	935,657
OTHER INCOME (EXPENSE):				
Interest expense	(37,626)	(59,778)	(83,514)	(101,512)
Interest income	34,365	32,330	46,795	43,552
Other (net)	(14,467)	(48,565)	(80,438)	(137,641)
Total	(17,728)	(76,013)	(117,157)	(195,601)
INCOME BEFORE TAXES	498,437	424,024	943,480	740,056
PROVISION FOR TAXES	55,536	56,819	109,938	99,167
NET INCOME	$442,901	$367,205	$833,542	$640,889
EARNINGS PER COMMON SHARE:				
Primary	$0.03	$0.03	$0.06	$0.05
Fully diluted	$0.03	$0.03	$0.06	$0.05
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:				
Primary	14,950,731	13,574,633	14,630,346	13,507,290
Fully diluted	14,950,731	14,194,633	14,966,604	14,127,290

See notes to consolidated financial statements.

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ARMSTRONG PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Three months ended March 28, 1992	Three months ended March 30, 1991	Six months ended March 28, 1992	Six months ended March 30, 1991
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$442,901	$367,205	$833,542	$640,889
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	129,742	77,173	232,474	179,277
Increase (decrease) in cash from:				
Accounts receivable and unbilled receivables	54,872	409,229	(131,640)	295,058
Inventories	(75,709)	(761,060)	(90,686)	(653,963)
Prepaid expenses and other current assets	19,781	60,376	(60,605)	(35,031)
Other assets	15,938	46,298	23,921	48,159
Accounts payable	1,042	425,390	(95,032)	155,576
Accrued expenses	(12,714)	85,093	(193,491)	71,311
Accrued professional fees	(38,131)	2,338	(20,496)	4,826
Income taxes payable	(20,534)	19,808	(36,643)	22,950
Accrued pension	12,638	(10,987)	(5,287)	(22,987)
Net cash provided by operating activities	529,826	720,863	456,057	706,065
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(305,296)	(102,484)	(480,697)	(192,192)
Net cash used in investing activities	(305,296)	(102,484)	(480,697)	(192,192)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments capital lease obligation	(60,113)	(55,384)	(120,830)	(106,258)
Payment of subordinated debenture	(25,000)	–	(25,000)	–
Proceeds from the exercise of stock options	37,300	–	37,300	–
Net cash used in financing activities	(47,813)	(55,384)	(108,530)	(106,258)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	176,717	562,995	(133,170)	407,615
CASH AND CASH EQUIVALENTS:				
Balance at beginning of period	2,016,700	1,245,152	2,326,587	1,400,532
Balance at end of period	$2,193,417	$1,808,147	$2,193,417	$1,808,147

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the fiscal year for:				
Interest paid	$83,514	$5,462	$135,598	$57,546
Income taxes paid	–	61,639	107,318	99,500
Noncash investing and financing activities:				
Subordinated debentures converted to common stock	600,000	–	600,000	–

See notes to consolidated financial statements.

ARMSTRONG PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Unaudited Financial Information

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments that are necessary for a fair presentation of such information for the periods presented.

The accounting policies followed by the Company are set forth in Note 2 of the Company's 1991 consolidated financial statements included in the Armstrong Pharmaceuticals, Inc. Form 10 - K.

Note 2 - Earnings per Share

During the second quarter of fiscal 1992, 600,000 shares of common stock were issued on conversion of the Company's senior subordinated 13% convertible debentures. Common shares issuable upon conversion of these 13% convertible debentures have been included in the calculation of earnings per share in prior periods.

Earnings per common share was computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the quarter and six months of fiscal 1992. The number of common shares was increased by the number of shares issuable on the exercise of options when the market price of the common stock exceeded the exercise price of the options. This increase in the number of common shares was reduced by the number of common shares that are assumed to have been purchased with the proceeds from the exercise of the options; those purchases were assumed to have been made at the average price of the common stock during that part of the quarter when the market price of the common stock exceeded the exercise price of the options.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

SALES. In the second fiscal quarter of 1992 the Company's net sales decreased by $651,118 or 17.8% from sales in the same fiscal quarter of 1991. In the first six fiscal months of 1992 the Company's net sales decreased by $265,774 or 4.0% from net sales in the same six fiscal months of 1991. The decrease resulted mainly from declining sales revenue and unit volume of opthalmic saline solution. The Company believes that declining sales revenue in opthalmic saline is the result of industry-wide excess manufacturing capacity and slack demand in the end-user market for saline eye care products.

GROSS MARGINS. Gross margins were 41.5% and 28.7% of sales revenues for each of the second fiscal quarters of 1992 and 1991, respectively. Gross margins were 39.3% and 29.7% of sales revenues for the first six fiscal months of 1992 and 1991, respectively. The increase was mainly attributable to increased sales of higher margin metered dose inhalers (MDIs) and the decrease in lower margin, higher price opthalmic saline.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses as a percent of net sales were 19.6% and 13.4% respectively for the second fiscal quarters of fiscal 1992 and 1991. Selling, general and administrative expense as a percent of net sales were 17.8% and 14.0% respectively for the first six months of fiscal 1992 and 1991. The increase as a percent of net sales is attributable to the decline in net sales for the period and to the absolute increase in such expenses. The absolute increase in selling, general and administrative expense is primarily attributable to business development activities for the Company's generic MDI, alternative propellant and aerosol formulation development programs.

RESEARCH AND DEVELOPMENT. In the second fiscal quarter of 1992 research and development expenses were $142,431 or 4.7% of net sales as compared to $62,283 or 1.7% of net sales in the second quarter of fiscal 1991. In the first six fiscal months of 1992 research and development expenses were $302,953 or 4.8% of net sales as compared to $100,369 or 1.5% of net sales in the first six fiscal months of 1991. The increase is attributable to the Company's generic MDI, alternative propellant and aerosol formulation development programs at its Delphi subsidiary.

OTHER EXPENSE (NET). Other expense (net) was $17,728 in the second fiscal quarter of 1992 as compared to $76,013 in the second fiscal quarter of 1991. Other expense was $117,157 in the first six fiscal months of 1992 as compared to $195,601 in the first six fiscal months of 1991. The decrease in other expense (net) is mainly attributable to an increase in other income derived from fees for engineering services at the Company's manufacturing subsidiary.

INCOME TAXES. Due to net operating loss carryforwards, the Company incurred only state and alternative minimum income tax liabilities of $55,536 and $56,819 for the second fiscal quarters of 1992 and 1991 respectively. State and alternative minimum income tax liabilities were $109,938 and $99,167 for the first six fiscal months of 1992 and 1991 respectively.

NET INCOME. The Company achieved net income of $442,901 and $367,205 for the second quarters of 1992 and 1991, respectively. The Company's net income as a percent of net sales was 14.7% and 10% for the second fiscal quarters of 1992 and 1991, respectively. Net income was $833,542 and $640,889 for the first six fiscal months of 1992 and 1991 respectively, and as a percent of net sales was 13.1% and 9.7% respectively. The increase in net income in the first quarter of fiscal 1992 was mainly attributable to the increasing percentage of revenues derived from the Company's MDI business.

Liquidity and Capital Resources

The Company's net working capital on March 28, 1992 was $4,611,505 representing an increase of $515,983 over its net working capital on September 28, 1991. This resulted mainly from an increase in accounts receivable and inventory and a decrease in accounts payable and accrued expenses.

The Company has in place a $1,250,000 lease line of credit, available to finance the acquisition of production and computer equipment. At March 28, 1992 there was approximately $494,000 of unused credit available under this facility. The equipment lease line of credit bears interest that is based on treasury note yields at inception and is fixed for the term of the lease. The Company has no present plans to make any material expenditures for equipment and anticipates that the unused portion of this credit facility will remain substantially unused for the current fiscal year.

The Company also has in place a $600,000 line of credit with a bank. Amounts drawn down under the line are payable upon demand and bear interest at a rate of prime plus 3/4%. At March 28, 1992 there were no amounts outstanding thereunder.

Management believes the foregoing arrangements will be sufficient to fund its anticipated working capital and capital expenditure requirements.

During the second quarter of fiscal year 1992, the Company converted its $500,000 and $100,000 13% convertible senior subordinated debentures ("13% debentures") and redeemed its $25,000 11% junior subordinated debenture ("11% debenture).

As a result, the Company issued 600,000 shares of common stock to the holders of the 13% debentures. The Company redeemed the 11% debenture for $25,000.

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PART II - OTHER INFORMATION

Item 6. Exhibits and reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed for the quarter ended March 28, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARMSTRONG PHARMACEUTICALS, INC.
(Registrant)

May 11, 1992
Date

By:
Augustine Lawlor
Vice President
Chief Financial Officer

0. 25186

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934 ...

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For Quarter Ended: January 31, 1992.

Commission File No.: 0-18935

BIG SKY USA, INCORPORATED
(Exact name of registrant as specified in its charter.)

Washington (State or other jurisdiction of incorporation or organization.)	81-0440517 (I.R.S. Employer Identification No.)

4020 South 56th St, Tacoma, Washington 98409
(Address of principal executive offices.) (Zip Code.)

Registrant's telephone number, including area code: (206) 471-9900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No__.

9,212,175 Shares of Common Stock Outstanding as of March 5, 1992

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

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PART I

ITEM 1. FINANCIAL STATEMENTS.

Beginning on Page 4 are the balance sheets of the Registrant as of January 31, 1992 and July 31, 1991, and the related statements of income and cash flows for the six months ended January 31, 1992 and 1991 compiled by management of the Registrant.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Results of Operations: Revenues, net of intercompany sales, for the three and six months ended January 31, 1992 increased to $1,130,696 and $2,144,611 respectively, from $975,982 and $2,119,104 for the same periods of fiscal 1991. Nevertheless, consolidated gross profit declined to $81,466 and $127,939 for the quarter and first six months of 1992 from profits of $184,614 and $217,351 for corresponding 1991 periods. Net losses for the quarter increased in 1992 to $300,998 versus $106,122 in 1991, and to $663,556 from $388,921 in the first half of 1992 and 1991 respectively. Losses related to the Company's contract manufacturing operation totalled $131,504 for second quarter 1992 and $283,472 for the six month period ending January 31, 1992. These losses were in contrast to net earnings of $595 and $30,829 reported by the operation over the same time periods last year.

Private label sales of the Company's shrinkfree 100% cotton fleece garments to catalog merchants exceeded all previous records, contributing $337,390 during the three months and $659,226 for the six months ended January 31, 1992. Gross margins achieved by these sales of private label products during the first six months of 1992 closely approximated projected goals.

Revenue increases achieved by sales of private label products were offset by reductions in contract manufacturing revenues throughout the first six months of the year. Losses in the contract manufacturing operation were the result of volume pricing concessions made to attract additional contract work. Such concessions were considered necessary measures to enable the Company to operate at a higher percentage of capacity, thereby increasing its operator and revenue bases. However, when certain customers delayed their transmittal of raw materials for higher margin contract products, an unprofitable mix of contract sewing contracts resulted.

The Registrant's efforts at rebuilding its sewing operator base during the first six months of 1992 successfully increased employment from 120 at fiscal year end 1991 to a total of 167 operators by December 14, 1991. Prior to the end of the second quarter, however, delayed receipts of raw materials from contract manufacturing customers negatively impacted the Company's scheduling efficiences. As a result, by January 31, 1992 the Company was forced to cut back its active base of sewing operators to 142. Subsequent to second quarter an additional 40 operators have been placed on temporary layoff. The Company expects to call these employees back to work during the third quarter of 1992.

Selling, general and administrative expenses comprised 33.2% of sales for the second quarter and 36.3% for the first half of 1992, up from 30.1% and 28.9% in the respective 1991 periods. Product development and marketing expenditures totalling $74,088 for the fiscal second quarter and $171,095 for the six months ended January 31, 1992 were related to the introduction of the Registrant's Amicus™ and Patricia Z™ product lines. Product development and marketing expenditures for the previous year's second quarter and six month period, in contrast, totalled $1,344 and $8,249. Sales commissions increased to $17,059 in second quarter 1992 from $321 in 1991, and to $33,151 for the first six months

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. (Continued)

of the fiscal year 1992 from $3,630 in the 1991 similar period as a result of the increased private label sales of garments made of the Company's cotton fabric.

Improvements in consulting and professional expenses were achieved over the corresponding periods of last year. Expenditures totalling $93,164 in second quarter 1991 were reduced to $74,157 in the same quarter 1992. Over the first six months of the fiscal year 1992, an overall savings of 27% was achieved with fiscal 1991 expenditures of $226,647 reduced to $166,242 in the current year. Salaries and wages reported in 1992 totalled $119,347 for the second quarter and $234,514 for the first six months of the year, as opposed to $91,814 and $178,493 in the similar periods of the previous year.

Liquidity and Capital Resources: Working capital of the Registrant as of January 31, 1992 was $326,134, as compared to $351,122 at fiscal year end. The Registrant utilizes its revolving commercial line of credit with The Hongkong and Shanghai Banking Corporation Limited obtained on August 30, 1991 to expedite and maximize its short term cash flow. The balance utilized of the $375,000 revolving line at January 31, 1991 totalled $275,105. During second quarter 1992, the Company also received net proceeds of $305,378 representing subscriptions for 533,854 shares of the Company's restricted common stock at $.65 per share. Subsequent to the end of the quarter, subscription agreements for an additional 321,163 shares of the Company's restricted common stock at the same rate per share were received, raising net proceeds of $193,460 and enabling the Registrant to close the private offering in February.

It is thus believed that adequate resources exist to allow the Registrant to fulfill its current firm commitments to customers. The Company, however, is presently actively seeking additional equity capital from private sources to ensure its ability to continue its current level of operations, without interruption, throughout the ensuing year.

BIG SKY USA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

			January 31 1992	July 31 1991
ASSETS				
Current assets				
Cash on hand and in bank			$81,916	$158,057
Accounts receivable less allowance for doubtful accounts of $10,697 at January 1992 and $15,109 at July 1991			411,014	276,648
Accounts receivable – other			11,162	9,996
Inventories			644,171	647,976
Prepaid expenses			68,429	72,005
			1,216,692	1,164,682
Property, plant and equipment				
Equipment			632,027	639,954
Leasehold improvements			6,757	4,638
			638,784	644,592
Less accumulated depreciation			201,915	147,000
			436,869	497,592
Other assets				
Organization costs net of amortization of $9,535 at January 1992 and $7,811 at July 1991			7,705	9,429
Deposits			14,667	14,567
Purchased cotton technology net of amortization of $15,000 at January 1992 and $7,500 at July 1991			285,000	292,500
			307,372	316,496
Total assets			$1,960,933	$1,978,770
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Note payable – City of Great Falls			$50,000	$50,000
Note payable – Hongkong Bank			275,105	-
Convertible promissory note payable			40,000	40,000
Accounts payable			209,295	284,699
Accrued expenses			316,158	436,008
Income taxes payable of subsidiary			-	2,853
			890,558	813,560
Shareholders' equity				
Common stock	January 1992	July 1991		
Par value:	no par	$0.05		
Authorized:	50,000,000	10,000,000		
Issued & outstanding:	8,867,834	7,925,693	4,359,513	396,285
Additional paid-in capital			-	3,394,507
Accumulated deficit			(3,289,138)	(2,625,582)
			1,070,375	1,165,210
Total liabilities and shareholders' equity			$1,960,933	$1,978,770

BIG SKY USA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended January 31,		Six months ended January 31,	
	1992	1991	1992	1991
Net sales	$1,130,696	$975,982	$2,144,611	$2,119,104
Cost of sales	1,049,230	791,368	2,016,672	1,901,753
Gross profit (loss)	81,466	184,614	127,939	217,351
Selling, general and administrative expenses	374,877	294,097	779,499	613,133
Loss from operations	(293,411)	(109,483)	(651,560)	(395,782)
Other income (expense)				
Interest expense	(7,590)	(4,303)	(12,002)	(16,312)
Interest and other income	3	7,664	6	23,173
Total other income (expense)	(7,587)	3,361	(11,996)	6,861
Loss before income taxes	(300,998)	(106,122)	(663,556)	(388,921)
Income taxes	-	-	-	-
Net loss	($300,998)	($106,122)	($663,556)	($388,921)
Net loss per share	($0.04)	($0.02)	($0.08)	($0.07)
Weighted average number of shares outstanding	8,445,440	6,562,997	8,286,432	5,281,174

BIG SKY USA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended January 31,	
	1992	1991
Cash flows from operating activities		
Net loss	($663,556)	($388,921)
Adjustments to reconcile net loss to net cash used by operating activities		
Common stock issued for consulting and other expenses	94,094	103,252
Depreciation and amortization	64,139	59,023
Changes in:		
Accounts receivable	(134,366)	(132,554)
Accounts receivable - other	(1,166)	2,031
Inventories	3,805	(83,357)
Prepaid expenses	3,576	(3,468)
Accounts payable	(75,404)	(87,945)
Accrued expenses	(122,703)	93,667
Net cash used by operating activities	(831,581)	(438,272)
Cash flows provided by (used by) investing activities		
Purchases of property, plant and equipment	(5,073)	(26,467)
Other	10,781	(10,026)
Net cash provided by (used by) investing activities	5,708	(36,493)
Cash flows from financing activities		
Retirement of short-term debt	(1,599,435)	(520,000)
Proceeds from short-term debt incurred	1,874,540	510,000
Net proceeds from issuance of common stock	474,627	523,742
Net cash provided by financing activities	749,732	513,742
Net increase (decrease) in cash and cash equivalents	(76,141)	38,977
Beginning cash and cash equivalents	158,057	226,331
Ending cash and cash equivalents	$81,916	$265,308

BIG SKY USA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended January 31, 1992	Six months ended January 31, 1991
Cash flows from operating activities		
Net loss	($663,556)	($388,921)
Adjustments to reconcile net loss to net cash used by operating activities		
Common stock issued for consulting and other expenses	94,094	103,252
Depreciation and amortization	64,139	59,023
Changes in:		
Accounts receivable	(134,366)	(132,554)
Accounts receivable – other	(1,166)	2,031
Inventories	3,805	(83,357)
Prepaid expenses	3,576	(3,468)
Accounts payable	(75,404)	(87,945)
Accrued expenses	(122,703)	93,667
Net cash used by operating activities	(831,581)	(438,272)
Cash flows provided by (used by) investing activities		
Purchases of property, plant and equipment	(5,073)	(26,467)
Other	10,781	(10,026)
Net cash provided by (used by) investing activities	5,708	(36,493)
Cash flows from financing activities		
Retirement of short-term debt	(1,599,435)	(520,000)
Proceeds from short-term debt incurred	1,874,540	510,000
Net proceeds from issuance of common stock	474,627	523,742
Net cash provided by financing activities	749,732	513,742
Net increase (decrease) in cash and cash equivalents	(76,141)	38,977
Beginning cash and cash equivalents	158,057	226,331
Ending cash and cash equivalents	$81,916	$265,308

BIG SKY USA, INC. AND SUBSIDIARIES
SELECTED INFORMATION - SUBSTANTIALLY ALL DISCLOSURES REQUIRED BY GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ARE NOT INCLUDED
January 31, 1992

Note 1 - Financial Statements

The unaudited financial statements of Big Sky USA, Inc. and Subsidiaries for the six month periods ended January 31, 1992 and 1991 reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations for the interim periods.

Note 2 - Inventories

Inventories consist of the following:

	January 31 1992	July 31 1991
Raw Material	$280,280	$283,277
Work in Process	338,255	354,006
Finished Goods	25,636	10,693
	$644,171	$647,976

Note 3 - Short Term Debt

During the Quarter ended October 31, 1991, the Registrant acquired a revolving commercial line of credit totalling $375,000 with The Hongkong and Shanghai Banking Corporation Limited. At January 31, 1992 the revolving note outstanding totalled $275,105.

At January 31, 1992 one promissory note totalling $40,000 was outstanding and is due on January 31, 1993.

Note 4 - Other Income

Big Sky USA, Inc.'s Subsidiary purchased work in process on June 4, 1990 from Green River Sportswear, Inc. Net income resulting from the sale of a portion of said purchased work in process during the six months ending January 31, 1991 was reported as Other Income totalling $12,125.

PART II

ITEM 1. LEGAL PROCEEDINGS.

Not applicable

ITEM 2. CHANGES IN SECURITIES.

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Annual Meeting of Shareholders of Big Sky USA, Incorporated was held on December 12, 1991. In addition to the election of directors and auditors, the shareholders voted on two other proposals. First, to ratify the Company's 1991 Stock Option Plan and the reservation of 1,000,000 shares of the Company's common stock for issuance thereunder. Of the shares voted, 6,291,018 were in favor, 274,733 were against and 26,759 abstained. Second, to approve the merger of the Company with and into its wholly-owned Washington subsidiary to change the Company's domicile from Montana to Washington. Of the shares voted, 6,516,176 were in favor, 68,175 were against and 8,159 abstained.

ITEM 5. OTHER INFORMATION.

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) The Company filed the following reports on Form 8-K during the quarter ended January 31, 1992:

(i) Report on Form 8-K dated November 4, 1991 in respect of the following items:

Item 4: Changes in Registrant's Certifying Accountant

(a) Dismissal of Junkermeier, Clark, Campanella, Stevens, P.C. as the Company's independent auditors.

(b) The engagement of Price Waterhouse as the Company's independent accountants.

(ii) Report on Form 8-K dated December 20, 1991 in respect of the following items:

Item 5: Other Events

The merger of the Company by and into its wholly-owned subsidiary for the purpose of changing the corporate domicile from Montana to Washington State.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIG SKY USA, INCORPORATED
Registrant

Lois T Birt
Lois T. Birt, Chief Financial Officer

March 13, 1992
Date

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Q-35088

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

C92-2228

For the quarter ended January 31, 1992
Commission file number 33-26616

BRIAN CAPITAL, INC.

Exact name of registrant as specified in it charter

Delaware	75-2256798
(State of incorporation)	(I.R.S. Employer ID Number)

1845 Precinct Line Road, Suite 100, Hurst, Texas 76054

(Address of principal executive offices)

(817) 498-8154

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all al reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for a shorter period that the registrant was required to file such report(s) and (2) has been subject to such filing requirements for the past ninety days. Yes X No____

As of March 6, 1992, there were 2,000,000 shares of common stock, $0.001 par value, outstanding.

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BRIAN CAPITAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CONDITION
January 31, 1992 and October 31, 1991

	January 31 1992	October 31 1991
ASSETS:		
Current assets		
Cash	$428	$428
Total Current assets	$428	$428
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$6,768	$6,768
Total current liabilities	$6,768	$6,768
Stockholders' equity:		
Preferred stock, $0.001 par value, 2,000,000 shares authorized, none outstanding		
Common stock, $0.001 par, 20,000,000 shares authorized, 2,000,000 shares issued and outstanding	$2,000	$2,000
Additional paid-in capital	$21,937	$21,937
Accumulated deficit	$(30,277)	$(30,277)
Total stockholders' equity (deficit)	$(6,340)	$(6,340)
Total liabilities and stockholders' equity	$428	$428

The accompanying notes are an integral part
of the financial statements

BRIAN CAPITAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF INCOME
for the three months ended January 31, 1992 AND 1991

	1991	1990
Administrative expenses	0	0
Net loss	0	0
Net loss per share	0.0000	0.0000
Average number of shares outstanding	2,000,000	2,000,000

The accompanying notes are an integral part
of these financial statements

BRIAN CAPITAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS
for three months ended January 31, 1992
and the year ended October 31, 1991

	Three Months Ended January 31, 1992	Year Ended October 31, 1991
Cash flows for operating activities:		
Net loss	0	($7,356)
Adjustments to reconcile net loss to net cash used by operating activities:		
Increase (Decrease) in accounts payable	0	$1,563
Net Cash used by operating activities:	0	$5,793
Cash flows from financing activities:		
Proceeds from capital contributions	0	0
Net cash provided by financing activities	0	0
Net increase (decrease) in cash	0	($5,793)
Cash at beginning of period	$428	$6,221
Cash at end of period	$428	$428

The accompanying notes are an integral part
of these financial statements

BRIAN CAPITAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY
for the three months ended January 31, 1992 and the year ended October 31, 1991

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at 10-31-90	2,000,000	2,000	$21,937	($22,921)	$1,016
Net loss				0	0
Balance at 1/31/91	2,000,000	2,000	21,937	(22,921)	1,016
Net loss				(7,356)	(7,356)
Balance at 10/31/91	2,000,000	2,000	21,937	(30,277)	(6,340)
Net loss				0	0
Balance at 1/31/92	2,000,000	2,000	$21,937	($30,277)	($6,340)

The accompanying notes are an integral part of these financial statements

BRIAN CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

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1. Formation of the Company:

The Company was formed on September 28, 1988 and issued 750,000 shares of its common stock to its parent, Surety Capital Corporation, for $750 on November 1, 1988. In June 1989, Surety Capital Corporation distributed these shares as a dividend to its common stockholders. Directors of the Company have contributed $21,937 to defray organizational and administrative costs incurred by the Company. Such costs are expensed as incurred. The Company has been accounted for as a Development Stage Company under Financial Accounting Standards Board Statement No. 7. The Company presently has no credit facilities or identifiable source of additional capital to develop independent business operations.

2. Stock Bonus Plan:

The Company adopted a stock bonus plan, under which it issued a total of 1,250,000 shares of its common stock to officers of the Company as compensation for money paid and services rendered in connection with the formation and operation of the Company. The stock distribution occurred in June 1989. The issuance of such shares to the Company's officers resulted in the recognition of compensation expense of $1,250, which is equal to the value of the shares issued.

Item 2, Managements's Discussion and Analysis of Financial Condition

Financial Condition

The Company is a development stage company with an effective registration statement on file with the Securities and Exchange Commission. The Company has not conducted any business operations as yet. The Company's cash resources and liquidity are extremely limited. The Company has no significant assets to use as collateral to allow it to borrow, and there is no available external funding source other than management of the Company, which has made a commitment to provide $10,000 in further funding. If no combination candidate is found within two years, the Company will likely liquidate. The Company's principal needs for capital are for Securities and Exchange Commission reporting requirements, accounting and professional fees. The Company will also need capital for the search for , investigation of and negotiation with potential acquisition candidates, to the extent this is not paid by management.

The Company's only anticipated source of funds is its management and founders. Management and founders have paid the expenses of organization of the Company and registration of the shares of Common Stock with the Securities and Exchange Commission. Management has also represented to the Company that they will bear their own costs in connection with the search for, investigation of and negotiation with potential acquisition candidates, subject to the ability to request the Company to reimburse out-of-pocket expenses to the extent that there are available funds and subject to the Company's sole discretion. If additional funds are needed for any reason, the Company intends to request that these be paid by founders and management. There can be no assurance that the founders or management will pay these expenses, and if they will not, there can be no assurance that the Company will be able to locate other suitable financing means or that any financing could be consummated on terms acceptable to the Company.

It is the present expectation of the management of the Company that in connection with any such merger or other business combination, management of the Company will be transferred to the new controlling stockholders. The management of the Company intends to negotiate covenants with any such company or controlling stockholders that it/they will use their best efforts to maintain the Company's registration with the Securities and Exchange Commission, and comply with the terms of its Certificate of Incorporation and Bylaws in all respects.

Result of Operations

For the three months period ended January 31, 1992, the Company was in the development stage and did not receive any operating revenues. During this period no expenses were incurred.

The Company has no business and its only activity is to seek a combination with an existing business.

Management believes that the Company's cash on hand, plus $10,000 pledged by management for working capital and interest earnings thereon will be sufficient to meet cash requirements through the remainder of the fiscal year ended October 31, 1992.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

No exhibits are required to be filed as part of this Form 10-Q

(b) Reports of Form 8-K

Not reports on Form 8-K were filed during the three months ended January 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed by the undersigned thereunto duly authorized.

BRIAN CAPITAL, INC.

Date: March 10, 1992

By:
David R. Goodnight
President and Chief Executive
Officer

And by:
G. M. Heinzelmann
Treasurer and Chief
Financial Officer

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MANUALLY SIGNED 36

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

This report contains 25 pages. Exhibit Index begins on page 23.

FORM 10-Q

(Mark One)

{X} QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

P92-2228

For the quarterly period ended March 31, 1992

OR

{ } TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission File No. 0-15828

15 1992

FIRST NATIONAL BANK CORP.

(Exact name of registrant as specified in its charter)

Delaware	38-2711692
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
18800 Hall Road, Mount Clemens, MI	48044
(Address of principal executive offices)	(Zip Code)

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(313) 465-2400

(Registrant's telephone number, including area c

No change since last report

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at April 30, 1992
Common Stock, $3.125 Par Value	1,262,770 Shares

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FIRST NATIONAL BANK CORP.
FORM 10-Q (continued)
Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Reference is made to the 1992 First Quarter Stockholders' Report, which is attached hereto as Exhibit (20), and incorporated by reference herein. This includes the Consolidated Balance Sheets as of March 31, 1992, December 31, 1991 and March 31, 1991 and Consolidated Statements of Income for the Three Months Ended March 31, 1992 and 1991.

First National Bank Corp. ("FNB Corp.") Consolidated Statement of Changes in Stockholders' Equity

	Three Months Ended March 31,	
	1992	1991
	(in thousands)	
Common Stock:		
Balance, beginning of period	$3,811	$3,777
Conversion of debentures	48	----
Stock dividend (1)	45	----
Balance, end of period	3,904	3,777
Surplus:		
Balance, beginning of period	9,561	9,159
Conversion of debentures	266	----
Stock dividend (1)	276	----
Balance, end of period	10,103	9,159
Retained Earnings:		
Balance, beginning of period	14,718	13,598
Net income	744	723
Cash dividends ($.24 per share in 1992, .18 per share in 1991)	(297)	(229)
Stock dividend (1) (2)	(1,295)	(971)
ESOP loan guarantee	37	28
Balance, end of period	13,907	13,149
Treasury Stock:		
Balance, beginning of period	(583)	(1,016)
Purchase of common shares (3)	(391)	(56)
Stock dividend (1) (2)	974	971
Balance, end of period	----	(101)
Total Stockholders' Equity, end of period	$27,914	$25,984

(1) On March 25, 1992, the Board of Directors of FNB Corp. declared a 5% stock dividend to shareholders of record on April 15, 1992, payable May 6, 1992.

(2) On March 27, 1991, the Board of Directors of FNB Corp. declared a 5% stock dividend to shareholders of record on April 17, 1991, payable May 15, 1991.

(3) FNB Corp. purchased 17,000 shares of its common stock in 1992 at an average price of $23.00 per share.

10-Q2\cashflow

FIRST NATIONAL BANK CORP.

CONSOLIDATED STATEMENTS OF CASH FLOW

	For the three months ended March 31	
	1992	1991
Operating Activities:		
Net income	$743,508	$723,142
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan and lease losses	400,000	325,000
Depreciation expense	295,800	239,500
Gain on sale of land	----	(205,894)
Amortization of investment security premiums	109,712	175,706
Net investment security gains	(82,556)	(3,988)
Increase in interest receivable	(509,608)	(857,367)
Decrease in interest payable	(309,054)	(245,436)
Increase in other assets	(1,003,832)	(392,165)
Decrease in other liabilities	(65,066)	(3,201)
Net Cash Used in Operating Activities	(421,096)	(244,703)
Investing Activities:		
Proceeds from sales of investment securities	7,095,228	4,478,609
Proceeds from maturities of investment securities	1,274,678	1,738,086
Purchases of investment securities	(18,470,477)	(11,261,101)
Net decrease in residential real estate loans	3,568,488	332,849
Net increase in commercial loans	(6,411,478)	(5,248,814)
Net decrease in consumer loans	2,310,266	1,236,622
Net decrease in lease financing	55,184	30,530
Purchases of property and equipment	(715,758)	(1,276,313)
Sales of property and equipment	----	708,090
Net Cash Used in Investing Activities	(11,293,869)	(9,261,442)
Financing Activities:		
Net increase (decrease) in non-interest bearing demand deposits	885,437	(11,419,333)
Net increase in interest bearing demand deposits	5,817,742	2,790,754
Net increase in savings deposits	4,476,542	2,161,134
Net increase (decrease) in time deposits	(2,867,307)	13,978,138
Net decrease in short term borrowings	----	(155,006)
Cash dividends paid	(297,435)	(229,117)
Debenture conversions-fractional shares paid	(33)	----
Repurchase of debentures	----	(138,000)
Repurchase of common stock	(391,015)	(56,250)
Net Cash Provided by Financing Activities	7,623,931	6,932,320
Decrease in Cash and Cash Equivalents	(4,091,034)	(2,573,825)
Cash and Cash Equivalents at the Beginning of the Period	25,840,168	23,442,042
Cash and Cash Equivalents at the End of the Period	$21,749,134	$20,868,217

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(A) Analysis of Financial Condition

Total assets of FNB Corp. have increased by 1.9%, or $8.0 million, to $432.5 million at March 31, 1992, as compared to $424.5 million at December 31, 1991, and by 3.0%, or $12.8 million, over March 31, 1991.

During 1992, total investment securities were increased by 10.9%, or $10.1 million, to $102.5 million at March 31, 1992, from $92.4 million at December 31, 1991. Growth during this period came in the United States Treasury, and United States Government agency categories, which had increases of $5.2 million and $4.8 million, respectively. These purchases resulted primarily from a large increase in deposits, while loan demand growth was unusually slow.

The following table shows the carrying value of FNB Corp.'s investment portfolio as of the dates indicated. Investment securities are stated at cost, adjusted for amortization of premium and accretion of discount.

	March 31, 1992		
Type	Book Value	Market Value	$ Variance
	(in thousands)		
United States Treasury	$12,288	$12,450	$162
United States Government agencies	40,550	40,940	390
Municipal obligations	48,844	50,135	1,291
Other securities	781	782	1
Total Securities	$102,463	$104,307	$1,844

Type	December 31, 1991		
	Book Value	Market Value	$ Variance
	(in thousands)		
United States Treasury	$7,073	$7,327	$254
United States Government agencies	35,760	36,819	1,059
Municipal obligations	48,694	50,029	1,335
Other securities	863	860	(3)
Total Securities	$92,390	$95,035	$2,645

Type	March 31, 1991		
	Book Value	Market Value	$ Variance
	(in thousands)		
United States Treasury	$3,975	$4,047	$72
United States Government agencies	39,863	40,032	169
Municipal obligations	47,885	48,094	209
Other securities	1,233	1,230	(3)
Total Securities	$92,956	$93,403	$447

Total Loans and Lease Financing increased by only 0.1%, or $300,000, to $287.2 million during the three months ended March 31, 1992, and decreased by 0.8%, or $2.4 million, from March 31, 1991.

The following table sets forth the composition of the Bank's loan portfolio as of the dates indicated:

	March 31,		Increase (Decrease)
	1992	1991	
	(in thousands)		
Types of Loans:			
Residential real estate.........	$59,938	$65,425	($5,487)
Commercial......................	168,467	153,977	14,490
Installment.....................	58,515	69,751	(11,236)
Lease Financing.................	322	440	(118)
Total Loans..................	287,242	289,593	(2,351)
Allowance for loan and lease losses........................	4,307	3,801	506
Net Loans.....................	$282,935	$285,792	($2,857)

Total residential real estate loans decreased by 5.6% or $3.6 million during the three months ended March 31, 1992, primarily due to a decrease in fixed rate loans of $2.4 million. During the twelve months ended March 31, 1992, residential real estate loans decreased by 8.4%, or $5.5 million, due to a large volume of prepayments on existing mortgages.

Total Commercial loans have increased by 3.9%, or $6.4 million, to $168.5 million at March 31, 1992 as compared to $162.1 million at December 31, 1991, and by 9.4%, or $14.5 million, over March 31, 1991. These increases were primarily in variable rate loans secured by Commercial Mortgages. Many of these loans are for working capital purposes, for which the Corporation has taken a mortgage as security on the loan.

Total installment loans decreased $2.4 million during the three months ended March 31, 1992 to $58.5 million, primarily due to a decrease in automobile and boat lending, as a result of the sluggish economy. During the twelve months ended March 31, 1992, installment loans decreased 16.1%, or $11.2 million, mostly due to the sale of the Corporation's credit card portfolio in November, 1991. These installment loan decreases were partially offset by a $1.3 million increase in equity line loans over the past year. These are revolving credit notes, which are secured by the borrower's principle residence. Tax legislation has contributed to their popularity as a tax-advantaged alternative to other types of installment borrowing.

Non-performing loans (which includes non-accrual loans and loans 90 days past due but still accruing) were 1.69% of total loans on March 31, 1992, compared to 1.48% at December 31, 1991, and 2.01% at March 31, 1991.

Included in non-accrual loans is a loan to a commercial borrower which filed Chapter 11 bankruptcy proceedings in December, 1990. This customer owed approximately $592,000 to the Bank, and the Bank holds mortgages on property with appraised values of approximately $550,000 as security. During the second quarter of 1991, the Small Business Administration honored their 90% guarantee on their portion of the loan, and paid $289,000 to the Bank. The remaining balance is currently $303,000. The customer, with court approval, has resumed making monthly interest payments, but the loan remains in non-accrual status. Unpaid interest in arrears on this loan was $15,000 as of March 31, 1992, while interest of $12,000 was collected during 1992. Management does not anticipate incurring any material losses on this loan.

In addition to non-performing loans, management placed a commercial loan for $2.3 million in other real estate on December 31, 1990, in accordance with accounting guidelines for "in-substance" foreclosure loans. The loan is for a commercial construction project on which the bank holds a mortgage. The property is being carried at the lower of the amount of the loan outstanding or fair market value of the property, which was $2.9 million at March 31, 1992. The property was sold by the borrower in 1991, and the new owner is in the process of completing construction and securing leases. In accordance with accounting rules, the property will be carried in other real estate and no interest income will be recognized until the borrower has reached a cumulative investment in the property, which will be 10-20% of the fair value, depending on the borrower meeting certain requirements.

During 1991, the Bank foreclosed on a commercial property with an outstanding loan balance of $1.1 million. The property is being carried in other real estate at its estimated fair market value of $947,000. The Bank has leased a portion of the property, and is considering offers for its sale. Details have not been finalized. Management does not anticipate incurring any material losses on this property.

Additionally, management placed a commercial loan for $700,000 in other real estate at December 31, 1991. The Bank was given the deed to the property in lieu of foreclosure. The Bank is considering offers to purchase the property, but details have not been finalized. The Bank subsequently wrote the property down by $75,000 in April, to its estimated sales price. Management does not anticipate any further losses on this property.

RECENT EVENT

Management was informed in early May that a commercial loan customer was experiencing severe cash flow difficulties and would be unable to comply with the terms of the loan agreement. The loan balance, which is current through April 1992, is approximately $2.2 million, and is secured by all of the common stock of two separate subsidiaries of the borrower. The customer has notified the Bank that it is negotiating the sale of one of the subsidiaries, with all proceeds assigned to the Bank. Management believes it may have difficulty collecting the full loan amount; however, there is not sufficient information available to reasonably estimate the amount of loan write-down, if any.

In each quarter, or more frequently as necessary, management evaluates the problems and potential losses in the loan portfolio. This evaluation is reflected in the allowance for loan losses and the quarterly provision for loan losses.

At March 31, 1992, there were no significant loans which were not disclosed in the above schedule where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrower to comply with present loan repayment terms and which, in management's judgment, may result in disclosure of such loans in the schedule above. Furthermore, management is not aware of any potential problem loans, except for those described above, which could have a material affect on the company's operating results, liquidity, or capital resources.

The Bank grants loans to customers who reside primarily in Macomb County and Metropolitan Detroit. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the automotive economic sector. Additionally, at March 31, 1992, the Bank had $59,938,000 in residential real estate loans which are for single family homes secured by mortgages. In addition, the Bank had $27,224,000 in loans at March 31, 1992 relating to the boat and marina industry, either in the form of installment loans for boats or in commercial loans to marinas. Generally, the loans are secured by the underlying equity in the boats or marinas.

Property and Equipment has increased 28.2%, or $3.1 million, to $14.1 million at March 31, 1992, from $11.0 million at March 31, 1991. This increase is primarily due to the construction of the Chesterfield and Dodge Park branches, and construction of the Corporation's Financial Center, which opened in 1991.

During the three months ended March 31, 1992, total liabilities increased by 1.9%, or $7.6 million, to $404.6 million, as compared to $397.0 million at December 31, 1991, and by 2.7%, or $10.8 million, over March 31, 1991. In the three months ended March 31, 1992, total deposits increased 2.2%, or $8.3 million, to $390.4 million. This increase was primarily due to increases in interest bearing demand deposits and savings deposits of $5.8 million and $4.5 million, respectively. These were partially offset by a decrease in time deposits of $2.9 million, to $151.0 million. During the twelve months ended March 31, 1992, total deposits have increased 3.5%, or $13.1 million. In this period, interest bearing demand deposits increased by 22.2%, or $19.1 million, and savings deposits have increased by $6.5 million, or 9.7%. Time deposits have decreased 9.4%, or $15.6 million, primarily in the greater than $100,000 category. The decreases in time deposits are due largely to falling rates throughout the past twelve months, while lower rates also contributed to the increases in savings and interest bearing demand deposits, as customer funds shifted toward more liquid accounts.

Stockholders' equity reflects the 5% stock dividend which was declared on March 25, 1992 to shareholders of record on April 15, 1992, payable May 6, 1992. The stock dividend will be issued primarily from the treasury stock owned by the Corporation, with some new shares also being issued. Fractional shares will be paid in cash at that time.

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FIRST NATIONAL BANK CORP.
FORM 10-Q (continued)

Average Balance Sheet

	Three Months Ended March 31,					
	1992			1991		
	Average Balance	Interest Income/ Expense	Average Rate Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rate Earned/ Paid
Assets:						
Federal funds sold	$2,865,934	$28,558	3.99%	$3,735,100	$57,143	6.12%
Investment securities:						
United States Treasury	8,295,864	156,101	7.53	3,972,184	81,991	8.26
United States Government agencies	36,678,987	745,528	8.13	38,569,077	806,190	8.36
Municipal obligations	48,841,525	1,121,161	9.18	44,710,738	991,094	8.87
Other Securities	831,859	4,780	2.30	1,328,974	13,651	4.11
Loans & leases	287,687,268	6,546,772	9.10	288,018,653	7,580,544	10.53
Total Earning Assets/Total Interest Income	385,201,437	8,602,900	8.93%	380,334,726	9,530,613	10.02%
Cash & due from banks	24,407,731			20,393,550		
All other assets	19,845,092			16,203,983		
Total Assets	429,454,260			416,932,259		
Liabilities & Stockholders' Equity:						
Deposits:						
Demand-interest bearing	107,128,876	985,116	3.68%	85,941,077	1,154,897	5.38%
Savings	70,459,723	634,653	3.60	64,652,251	807,538	5.00
Time	150,378,901	2,135,233	5.68	167,175,087	3,065,467	7.33
Federal funds purchased	415,385	4,233	4.08	1,168,817	20,149	6.90
Short term borrowings	1,098,658	15,332	5.58	1,142,868	26,499	9.27
Long term debt	9,456,011	213,714	9.04	9,819,734	224,543	9.15
Total Interest Bearing Liabilities/Total Interest Expense	338,937,554	3,988,281	4.71%	329,899,834	5,299,093	6.43%
Demand deposits	58,693,192			55,951,124		
All other liabilities	4,006,647			5,183,892		
Stockholders' Equity	27,816,867			25,897,409		
Total Liabilities & Stockholders' Equity	$429,454,260			$416,932,259		
Interest Spread (Average Rate Earned Minus Average Rate Paid)			4.22%			3.59%
Net Interest Income (FTE)		$4,614,619			$4,231,520	
Net Interest Margin (FTE) (Net Interest Income/Total Earning Assets)			4.79%			4.45%

(B) Analysis of Results of Operations

ANALYSIS OF CHANGES IN NET INTEREST INCOME

The following tables, presented on a tax-equivalent basis, set forth the dollar amount of changes in net interest income for each major category of interest earning assets and interest bearing liabilities and the amount of change attributable to changes in average balances (volume) or average rates. The variances attributable to both volume and rate changes have been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

	Three Months Ended March 31, 1992 vs. 1991		
		Increase (Decrease) Due to Changes In	
	Total	Volume	Rate
		(in thousands)	
Earning assets - Interest income:			
Federal funds sold	($28)	($13)	($15)
Investment Securities:			
United States Treasury	74	89	(15)
United States Government agencies	(61)	(40)	(21)
Municipal obligations	130	92	38
Other securities	(9)	(5)	(4)
Loans and leases	(1,034)	(9)	(1,025)
Total	(928)	114	(1,042)
Deposits and borrowed funds - Interest expense:			
Deposits:			
Demand - interest bearing	(170)	285	(455)
Savings	(173)	72	(245)
Time	(930)	(308)	(622)
Federal funds purchased	(16)	(13)	(3)
Short term borrowings	(11)	(1)	(10)
Long term debt	(11)	(8)	(3)
Total	(1,311)	27	(1,338)
Tax-Equivalent Margin - Income on earning assets less interest cost of deposits and borrowed funds	$383	$87	$296

FIRST NATIONAL BANK CORP.
FORM 10-Q

For the three months ended March 31, 1992, net interest income, on a fully tax-equivalent basis (FTE) increased 9.1%, or $383,000, to $4,615,000, as compared to $4,232,000 for the same period one year ago. The net interest margin also increased, to 4.79% for the three months ended March 31, 1992, as compared to 4.45% for the same period one year ago. This increase in the net interest margin is largely due to a decline in rates on interest bearing liabilities which was proportionately faster than the fall in rates on interest earning assets.

AVERAGE STATEMENTS OF CONDITION

The following tables show FNB Corp.'s consolidated average balances of assets, liabilities, and stockholders' equity, the amount of tax-equivalent interest income or interest expense, the average yield or rate for each category of interest earning asset and interest bearing liability, FNB Corp.'s net interest spread and FNB Corp.'s net interest margin; for the three months ended March 31, 1992 and 1991. Non-performing loans are included in average loans. Interest on loans and leases includes loan fees. Non-taxable income from investment securities and loans is presented on a fully tax-equivalent basis assuming a 34% federal tax rate.

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FIRST NATIONAL BANK CORP.
FORM 10-Q (continued)
NET INCOME

Net income for the first quarter ended March 31, 1992 increased to $744,000, from $723,000 for the same period one year ago.

Net interest income increased 8.3%, or $327,000, to $4,255,000 for the three months ended March 31, 1992, as compared to $3,928,000 for the same period one year ago. Primarily responsible for this increase was a decrease in rates on interest bearing liabilities which was proportionately faster than the decrease in rates on interest earning assets. The provision for loan and lease losses, meanwhile, increased by $75,000, to $400,000 for the three months ended March 31, 1992, as compared to $325,000 for the same period one year earlier. The provision for loan and lease losses was increased in order to provide for the economy, which continued to show signs of weakness. This brought net interest income after the provision for loan and lease losses to $3,855,000 for the quarter ended March 31, 1992, as compared to $3,603,000 for the same period one year earlier.

Non-interest income decreased 17.4%, or $167,000, to $793,000. This was primarily due to a gain of $206,000, recognized in 1991, on the sale of land adjacent to the new Financial Center.

Also partially offsetting the increase in net interest income was an increase in non-interest expense of 12.3%, or $463,000, to $4,230,000 for the three months ended March 31, 1992. Partly responsible for the increase in non-interest expense were increases in occupancy and equipment expense of $170,000, due to increased building and equipment depreciation, FDIC assessments due to the new assessment rates which were part of the S & L bailout legislation, and consulting expense due to work on the Corporation's current strategic planning process. Nearly all of the increases in non-interest expense, including a $188,000 increase in wages and benefits, continue to be related to growth of the Corporation and expansion of the bank's branch network.

Income before taxes and the cumulative effect of an accounting change decreased by $377,000, to $419,000 for the three months ended March 31, 1992, as compared to $796,000 for the period one year earlier. The Corporation recognized a credit for federal income taxes of $94,000 in 1992, since a large portion of interest income is from non-taxable municipal obligations. In the first quarter of 1991, income tax expense was $73,000. Additionally, the Corporation recognized a one-time gain of $231,000 in 1992, from the "cumulative effect of a change in accounting principle." The gain represents the realization of net deferred tax assets, as the Corporation implemented SFAS No. 109, "Accounting for Income Taxes." This brought year-to-date net income to $744,000 for the three months ended March 31, 1992, as compared to $723,000 for the same period one year earlier.

SUMMARY OF LOAN AND LEASE LOSS EXPERIENCE

The following table summarizes loan balances at the end of each period and daily averages; changes in the allowance for loan and lease losses arising from loans charged off and recoveries on loans previously charged off, by loan category; and additions to the allowance which have been charged to expense.

	Three Months Ended March 31,	
	1992	1991
	(in thousands)	
Average loans and leases outstanding........	$287,687	$288,019
Total loans and leases at period end........	$287,242	$289,594
Allowance for loan and lease losses at beginning of period........................	$4,038	$3,545
Charged Off:		
Residential real estate..................	----	----
Commercial...............................	55	----
Installment..............................	114	126
Total....................................	169	126
Recoveries on loans previously charged off:		
Residential real estate..................	----	----
Commercial...............................	6	6
Installment..............................	32	51
Total....................................	38	57
Net loans charged off................	131	69
Provision charged to expense................	400	325
Allowance for loan and lease losses at end of period................................	$4,307	$3,801
Annualized ratio of net charge-offs during the period to average loans outstanding...	0.18%	0.10%
Allowance for loan and lease losses as a percentage of loans and leases at period end......................................	1.50%	1.31%

In each accounting period, the allowance for loan and lease losses is adjusted by management to the amount necessary to maintain the allowance at adequate levels. Through its internal loan review department, management has attempted to allocate specific portions of the allowance for loan losses based on specifically identifiable problem loans. Management's evaluation of the allowance is further based on consideration of actual loss experience, the present and prospective financial condition of borrowers, industry concentrations within the portfolio and general economic conditions. Presently, management believes that the allowance is adequate based on its review of all problem and past due loans in its portfolio.

The primary risk element considered by management with respect to each installment and residential real estate loan is lack of timely payment. Management has a reporting system that monitors past due loans and has adopted policies to pursue its creditor's rights in order to preserve the Bank's position. The primary risk elements with respect to commercial loans are the financial condition of the borrower, the sufficiency of collateral and lack of timely payment. Management has a policy of requesting and reviewing annual financial statements from its commercial loan customers and periodically reviews existence of collateral and its value.

Although management of the Bank believes that the allowance for loan and lease losses is adequate to absorb losses as they arise, there can be no assurance that the Bank will not sustain losses in any given period which could be substantial in relation to the size of the allowance for loan and lease losses.

LIQUIDITY AND ASSET/LIABILITY MANAGEMENT

The liquidity of a banking institution reflects its ability to provide funds to meet loan requests, to accommodate possible outflows in deposits and to take advantage of interest rate market opportunities. Funding of loan requests, providing for liability outflows, and management of interest rate fluctuations require continuous analysis in order to match the maturities of specific categories of short-term loans and investments with specific types of deposits and borrowings. Bank liquidity is thus normally considered in terms of the nature and mix of the banking institution's sources and uses of funds. For FNB Corp., the major sources of liquidity have been federal funds sold, and loans (including demand loans) and investment securities maturing within one year. At March 31, 1992 and 1991, federal funds sold amounted to $500,000 and $600,000, respectively, and loans (including demand loans) and investment securities maturing within one year amounted to $92.4 million at March 31, 1992, and $102.9 million at March 31, 1991. The balances of the certificates of deposit of $100,000 and over were $59.2 million and $75.0 million at March 31, 1992 and 1991, respectively.

Closely related to the concept of liquidity is the management of interest earning assets and interest bearing liabilities, which focuses on maintaining stability in the net interest spread, an important factor in earnings growth and stability. Emphasis is placed on maintaining a controlled rate sensitivity position to avoid wide swings in spreads and to minimize risk due to changes in interest rates.

The following table sets forth the cumulative rate sensitivity of FNB Corp.'s interest earning assets and interest bearing liabilities as of March 31, 1992. This table displays FNB Corp.'s interest rate sensitivity gap (i.e., interest rate sensitive assets less interest rate sensitive liabilities), FNB Corp.'s cumulative interest rate sensitivity gap, FNB Corp.'s interest rate sensitivity gap ratio (i.e., interest rate sensitive assets divided by interest rate sensitive liabilities) and FNB Corp.'s cumulative interest rate sensitivity gap ratio. For the purposes of the following table, an asset or liability is considered rate sensitive within a specified period when it matures or could be repriced within such period, in accordance with its contractual terms.

RATE SENSITIVITY OF INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES

MARCH 31, 1992
(in thousands)

	WITHIN THREE MONTHS	AFTER THREE MONTHS BUT WITHIN SIX MONTHS	AFTER SIX MONTHS BUT WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS	TOTAL
Interest earning assets:						
Federal funds sold.........	$500	----	----	----	----	$500
Loans......................	181,021	$4,800	$11,061	$50,110	$40,250	287,242
Investment securities......	5,487	4,800	2,745	42,979	46,452	102,463
Total....................	187,008	9,600	13,806	93,089	86,702	390,205
Interest bearing liabilities:						
Interest bearing demand deposits.................	67,431	----	----	37,871	----	105,302
Savings....................	----	----	----	----	73,203	73,203
Time > $100,000	47,115	9,595	1,852	605	----	59,167
Time < $100,000	37,155	19,483	12,575	21,848	749	91,810
Borrowed funds.............	1,100	----	----	----	60	1,160
Long term debt.............	----	----	----	----	9,282	9,282
Total....................	152,801	29,078	14,427	60,324	83,294	339,924
Interest rate sensitivity.....	34,207	(19,478)	(621)	32,765	3,408	50,281
Cumulative interest rate sensitivity gap.............	$34,207	$14,729	$14,108	$46,873	$50,281	$50,281
Interest rate sensitivity gap ratio......................	1.22 x	0.33 x	0.96 x	1.54 x	1.04 x	1.15 x
Cumulative interest rate sensitivity gap ratio.......	1.22 x	1.08 x	1.07 x	1.18 x	1.15 x	1.15 x

The table above indicates the time periods in which interest earning assets and interest bearing liabilities will mature or may be repriced in accordance with their contractual terms. However, this table does not necessarily indicate the impact of general interest rate movements on FNB Corp.'s net interest yield because the repricing of various categories of assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, various assets and liabilities indicated as repricing within the same period may in fact price at different times and at different rate levels.

At March 31, 1992, FNB Corp. is considered "asset sensitive" according to the table above. This indicates that in a rising rate environment, FNB Corp. may be able to raise prices on earning assets faster than the interest costs it pays for liabilities.

FNB Corp. has also been granted approval for a branch to be established at the north-west corner of Metropolitan Parkway (16 Mile) and Dodge Park roads in Sterling Heights. The total cost of this facility is estimated to be $1.2 million, of which approximately $961,000 has already been paid.

FIRST NATIONAL BANK CORP.
FORM 10-Q (continued)

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

As a depository of funds, the Bank is occasionally named as a defendant in lawsuits (such as garnishment proceedings) involving claims to the ownership of funds in particular accounts. All such litigation is incidental to the business.

The Bank, together with James Tamer, Kathleen Tamer and Mae Ellen George, were named as defendants in an action commenced by Woodrow W. and Anna Woody in the Circuit Court for Macomb County, Michigan, on December 5, 1983. The plaintiffs sought damages from the defendants in an aggregate amount of not less than $2,650,000, and claimed breach of contract, tortious interference with contractual and business relations, and conspiracy. The Bank counterclaimed against Woodys, seeking damages in excess of $10,000 and claiming misrepresentation, mistake, failure of consideration, economic duress and unjust enrichment. The remaining defendants also filed a counterclaim against Woodys, seeking damages in excess of $10,000 based upon misrepresentation and breach of contract. Motions for summary disposition filed by the Bank and the other defendants were granted, and Woodys appealed that decision. On April 22, 1992, the Michigan Court of Appeals ruled that the trial court properly granted summary disposition. Although the possibility of another appeal exists, it must be filed within 20 days, and thus it appears unlikely. Management of the Bank has been advised by its special counsel that based upon its investigation to date, it does not believe that the Bank is likely to be liable for damages in any material amount.

The Corporation's management believes that no other litigation is threatened or pending in which the Corporation, or any of its subsidiaries, is likely to experience loss or exposure which would materially affect the Corporation's stockholders' equity or financial position as presented herein.

Item 2. Changes in Securities.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

FIRST NATIONAL BANK CORP.
FORM 10-Q (continued)

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

(11) Earnings Per Share Calculation.

(20) Report furnished to Security Holders.
First Quarter Report dated March 31, 1992

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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FIRST NATIONAL BANK CORP.
FORM 10-Q (continued)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST NATIONAL BANK CORP.
(Registrant)

By:
Harold W. Allmacher
President & C.E.O.
(Principle Executive Officer)

By:
Richard J. Miller
Treasurer
(Principle Financial & Accounting Officer)

DATE: May 14 1992

EXHIBIT INDEX

The following constitute the exhibits to the Quarterly Report on Form 10-Q of the Corporation for the period ended March 31, 1992:

EXHIBIT NUMBER	EXHIBIT	SEQUENTIAL PAGE NUMBER
(11)	Statement of Computation of Per Share Earnings	—
(20)	Quarterly Report of the Registrant to its Shareholders for the quarter ended March 31, 1992	—

10-Q\EXHIB11
FIRST NATIONAL BANK CORP.
FORM 10-Q (continued)

EXHIBIT (11)
1992 EARNINGS PER SHARE CALCULATION
PRIMARY AND FULLY DILUTED E.P.S.

	THREE MONTHS ENDED MARCH 31,	
PRIMARY EARNINGS PER SHARE:	1992	1991
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	512,508	723,142
/ WEIGHTED AVERAGE SHARES	1,269,963	1,263,420
PER SHARE	$0.40	$0.57
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	231,000	---
/ WEIGHTED AVERAGE SHARES	1,269,963	1,263,420
PER SHARE	$0.18	$0.00
PRIMARY NET INCOME PER SHARE	$0.58	$0.57
FULLY DILUTED EARNINGS PER SHARE:		
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	608,939	823,954
/ WEIGHTED AVERAGE SHARES	1,605,760	1,612,666
PER SHARE	$0.38	$0.51
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	231,000	---
/ WEIGHTED AVERAGE SHARES	1,605,760	1,612,666
PER SHARE	$0.14	$0.00
FULLY DILUTED NET INCOME PER SHARE	$0.52	$0.51

Prior year number of shares in each category were increased to give effect to the 1992 5% stock dividend.

Exhibit (20)
First Quarter Report to Shareholders
as of March 31, 1992

FNBC
FIRST NATIONAL BANK CORP.

First Quarter Report March 31, 1992

Headquarters

First National Bank Corp.
18800 Hall Road, P.O. Box 248
Mount Clemens, MI 48046-0248
(313) 465-2400

First National Bank Corp. Stock

The common stock of First National Bank Corp. is traded in the over-the-counter National Market System of NASDAQ. The Corporation's NASDAQ ticker symbol, "MTCL," is represented in The Wall Street Journal as "FstNtlBkMI". The Corporation has 1,249,225 shares of $3.125 par value common stock issued and outstanding.

[redacted]

First National Bank Corp

Financial Highlights

(in thousands, except per share data)

First Quarter Ended March 31,
(Fiscal year-to-date information is identical)

	1992	1991
Net Income	$744	$723
Average Total Assets	$429,454	$416,932
Average Loans & Leases	$287,687	$288,019
Average Deposits	$386,661	$373,720
Average Common Stockholders' Equity	$27,817	$25,897
Primary Earnings Per Share	$0.58	$0.57
Fully Diluted Earnings Per Share	$0.52	$0.51
Dividends Per Share	$0.24	$0.18
Book Value Per Share	$22.34	$19.60
Primary Average Shares	1,269,963	1,263,420
Fully Diluted Average Shares	1,605,760	1,612,666
Return on Average Common Equity	10.69%	11.17%
Return on Average Assets	0.69%	0.69%
Tier 1 Capital to Risk-Based Assets at Period End	8.79%	8.24%
Total Capital to Risk-Based Assets at Period End	12.99%	12.53%
Non-Performing Loans as a Percent of Loans & Leases	1.69%	2.01%

[redacted]

First National Bank Corp

Message to Stockholders

April 30, 1992

Dear Stockholder:

We started the year on a positive note, with improved earnings for our first quarter, the three months ended March 31, 1992.

Our net income for the quarter was $744,000, or $0.58 per share, up nearly 3% from net income of $723,000, or $0.57 per share, for last year's first quarter. Fully diluted net income per share was $0.52, compared with $0.51 per share the year before.

Our net interest income for the quarter rose 8%, to $4,255,000, from $3,928,000 a year ago. The provision for loan and lease losses was $400,000 in 1992, compared with $325,000 in 1991.

Non-interest income declined $167,000, to $793,000, from last year's first quarter. The decrease was due largely to a one-time gain of $206,000, recognized in 1991's first quarter on the sale of a parcel of land.

For the quarter, non-interest expense was $4,230,000, an increase of $463,000 over the previous year. The increase is due primarily to our continued growth and the operation of two additional branches. We recognized an income tax credit of $94,000 during the quarter, reflecting the large portion of our interest income that is from non-taxable municipal obligations. In 1991, federal income tax expense was $73,000.

We also recognized a one-time gain of $231,000, resulting from the cumulative effect of a change in accounting principle. This is related to Statement of Financial Accounting Standards No. 109, which required a change in the method of accounting for income taxes.

At the close of the quarter, we had assets of $432.5 million, an increase of 3%, or $12.7 million, over assets of $419.8 million at the close of 1991's first quarter. Total loans decreased to $287.2 million, as a result of the sale of our credit card portfolio in November, 1991.

In recognition of our positive first quarter results, your Board of Directors declared a special 5% stock dividend, payable beginning May 6, 1992 to stockholders of record April 15, 1992. This is the fifth consecutive year for a special stock dividend payout. A letter was mailed to all stockholders explaining the stock dividend.

At March 31, 1992, the Corporation had 1,249,225 shares of commmon stock issued and outstanding.

Arie Guldemond
Chairman of the Board

H. W. Allmacher

Harold W. Allmacher
President &
Chief Executive Officer

[redacted]

First National Bank Corp

Consolidated Balance Sheets (Unaudited) as of:

Assets

Cash and due from banks
Federal funds sold

Total Cash and Cash Equivalents

Investment securities (1):
United States Treasury
United States Government agencies
Municipal obligations
Other securities

Total Securities

Loans and lease financing:
Residential real estate
Commercial
Installment
Lease financing

Total Loans and Lease Financing
Allowance for loan and lease losses

Net Loans and Lease Financing

Property and equipment (net of depreciation)
Accrued interest receivable
Other real estate
Other assets

Total Assets

Liabilities and Stockholders' Equity

Deposits:
Demand:
Non-interest bearing
Interest bearing
Savings
Time

Total Deposits

Short term borrowings
Other liabilities
Long term debt

Total Liabilities

Stockholders' Equity
Common Stock—$3.125 par value; 8,000,000 shares authorized, 1,249,225 shares issued and outstanding at March 31, 1992; 1,191,307 shares outstanding at Dec. 31, 1991, and 1,202,865 shares outstanding at March 31, 1991.
Surplus
Retained earnings – o –
Treasury Stock—[redacted] shares at March 31, 1992; 28,254 shares at Dec. 31, 1991, and 5,921 shares at March 31, 1991.

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

---

(1) Investment securities of $3,260,000 were pledged at March 31, 1992 to secure public funds on deposit, and for other purposes required by law

March 31, 1992	December 31, 1991	March 31, 1991
$21,249,134	$21,840,168	$20,268,217
500,000	4,000,000	600,000
21,749,134	25,840,168	20,868,217
12,287,740	7,072,582	3,975,022
40,550,215	35,759,866	39,862,648
48,844,447	48,694,319	47,885,124
780,625	862,845	1,233,387
102,463,027	92,389,612	92,956,181
59,937,587	63,506,075	65,425,136
168,466,940	162,104,961	153,977,158
58,515,095	60,907,327	69,750,791
322,240	377,424	440,549
287,241,862	286,895,787	289,593,634
(4,306,849)	(4,038,314)	(3,801,266)
282,935,013	282,857,473	285,792,368
14,069,092	13,649,134	11,004,936
3,451,564	2,941,956	3,925,623
4,559,394	4,354,870	2,456,631
3,279,541	2,480,233	2,751,193
$432,506,765	$424,513,446	$419,755,149
$60,903,336	$60,017,899	$57,792,552
105,302,042	99,484,300	86,182,866
73,203,155	68,726,613	66,714,721
150,977,049	153,844,356	166,606,175
390,385,582	382,073,168	377,296,314
1,100,000	1,100,000	1,998,619
3,825,301	4,236,374	4,714,056
9,282,000	9,597,000	9,762,000
404,592,883	397,006,542	393,770,989
3,903,828	3,811,128	3,777,456
10,103,239	9,560,752	9,159,123
13,906,815	14,718,273	13,148,728
—	(583,249)	(101,147)
27,913,882	27,506,904	25,984,160
$432,506,765	$424,513,446	$419,755,149

(2) The 1991 financial statements have been reclassified to reflect the classifications used for the 1992 financial statements

First National Bank Corp

Consolidated Statements of Income (Unaudited)

Interest Income:
  Loans and leases (including fees)
  Investment Securities:
    United States Treasury
    United States Government agencies
    Municipal obligations
    Other securities
  Federal funds sold

  Total Interest Income

Interest Expense:
  Deposits
  Federal funds purchased
  Short term borrowings
  Long term debt

  Total Interest Expense

  Net Interest Income
Provision for loan and lease losses

Net Interest Income after Provision for Loan and Lease Losses

Non-Interest Income:
  Service charges on deposit accounts
  Investment security gains (losses)
  Other income

  Total Non-Interest Income

Non-Interest Expense:
  Salaries, benefits, and payroll taxes
  Occupancy
  Equipment
  Other operating expense

  Total Non-Interest Expense

  Income Before Taxes and Cumulative Effect of Change in Accounting Principle
Income tax expense (credit)

  Income Before Cumulative Effect of Change in Accounting Principle
Cumulative effect of change in accounting principle

  Net Income

Per share data:
  Primary earnings per share

  Fully diluted earnings per share

  Cash Dividends

Three Months Ended March 31 (Fiscal year-to-date information is identical)	
1992	1991
$6,532,874	$7,566,451
156,101	81,991
745,528	806,190
775,565	701,848
4,780	13,651
28,558	57,143
8,243,406	9,227,274
3,755,002	5,027,902
4,233	20,149
15,332	26,499
213,714	224,543
3,988,281	5,299,093
4,255,125	3,928,181
400,000	325,000
3,855,125	3,603,181
558,061	493,692
82,556	3,988
152,875	462,866
793,492	960,546
1,775,180	1,587,557
424,639	358,683
394,031	355,173
1,636,259	1,466,172
4,230,109	3,767,585
418,508	796,142
(94,000)	73,000
512,508	723,142
231,000	—
$743,508	$723,142
$0.58	$0.57
$0.52	$0.51
$0.24	$0.18

First National Bank Corp

Board of Directors

Harold W. Allmacher
President and Chief Executive Officer, First National Bank Corp.; Chairman of the Board, President and Chief Executive Officer, First National Bank in Macomb County

Dr. Raymond M. Contesti
Superintendent, Clintondale Community Schools; Chairman, MCG Telesis, Inc.

James T. Cresswell
President, Oakland General Underwriters

Arie Guldemond
Chairman of the Board, First National Bank Corp.; President, United Bulb Co.

Celestina Giles
Bank Officer - Executive Department
First National Bank in Macomb County

Frank E. Jeannette
Attorney at Law

John D. Madigan
Retired President, Oakland Gas & Oil Co.

David A. McKinnon
Attorney, Hardy, Lewis, Pollard & Page, P.C.

Dr. Robert Morrison
Dentist

John J. Mulso
Retired Undersheriff, Macomb County Sheriff's Department

Glen D. Schmidt
President, Star Gasket Corporation

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FIRST NATIONAL BANK IN MACOMB COUNTY

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Q. 35102

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

[illegible]

92 14 4815

Quarter Ended March 31, 1992

Commission File Number 0-10232

E92-2228

FIRST REGIONAL BANCORP
(Exact name of registrant as specified in its charter)

California
State or other jurisdiction of incorporation or organization

95-3582843
IRS Employer Identification Number

1801 Century Park East, Los Angeles, California
Address of principal executive offices

90067
Zip Code

(310) 552-1776
Registrant's telephone number, including area code

Not applicable
Former name, former address, and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding in each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, No Par Value
Class

2,157,800
Outstanding on May 14, 1992

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FIRST REGIONAL BANCORP
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The financial statements called for under this item appear on the pages which immediately follow.

FIRST REGIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In Thousands)

	March 31 1992 (unaudited)	December 31, 1991
ASSETS		
Cash and due from banks	$ 12,543	$ 7,267
Time deposits with other financial institutions	200	200
Investment securities	12,690	9,994
Funds sold	9,500	6,100
Loans, net of allowance for loan losses of $2,805,000 in 1992 and $2,400,000 in 1991	106,919	107,757
Premises and equipment, net of accumulated depreciation	321	342
Investment in real estate	2,613	2,604
Accrued interest receivable and other assets	2,290	2,594
Total Assets	$147,076	$136,858
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 18,088	$ 16,124
Savings deposits	4,767	4,714
Money market deposits	73,661	74,211
Time deposits	36,290	27,381
Total deposits	132,806	122,430
Securities sold under agreement to repurchase	1,575	1,516
Accrued interest payable and other liabilities	485	879
Total Liabilities	134,866	124,825
Shareholders' Equity:		
Common Stock, no par value, 50,000,000 shares authorized; 2,157,800 and 2,154,800 shares outstanding in 1992 and 1991, respectively	10,790	10,790
Retained Earnings	1,420	1,243
Total Shareholders' Equity	12,210	12,033
Total Liabilities and Shareholders' Equity	$147,076	$136,858

The accompanying notes are an integral part of these statements.

FIRST REGIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
REVENUE FROM EARNING ASSETS:		
Interest and fees on loans	$2,877	$2,432
Interest on time deposits with other financial institutions	2	2
Interest on investment securities	135	261
Interest on funds sold	112	278
Total revenue from earning assets	3,126	2,973
COST OF FUNDS:		
Interest on deposits	1,132	1,438
Interest on securities sold under agreements to repurchase	18	29
Total cost of funds	1,150	1,467
Net revenue from earning assets before provision for loan losses	1,976	1,506
PROVISION FOR LOAN LOSSES	400	160
Net revenue from earning assets	1,576	1,346
OPERATING INCOME		
Net gains (losses) on sales of investment securities	6	(32)
Other revenue	94	91
Total operating income	100	59
OPERATING EXPENSES:		
Salaries and related benefits	559	566
Occupancy expense	165	154
Other expenses	683	566
Total operating expenses	1,407	1,286
Income (loss) before provision (benefit) for income taxes	269	119
PROVISION FOR INCOME TAXES	92	18
NET INCOME	$ 177	$ 101

NET INCOME PER SHARE (Note 2)	$ 0.08	$ 0.05
	======	======

The accompanying notes are an integral part of these statements.

FIRST REGIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
OPERATING ACTIVITIES		
Net Income	$ 177	$ 101
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	405	160
Provision for depreciation and amortization	28	28
Amortization of investment security premiums	19	1
Accretion of investment security discounts	(20)	0
Decrease (increase) in interest receivable	47	(128)
Increase (decrease) in interest payable	47	(52)
Increase (decrease) in taxes payable	(129)	(161)
Net increase (decrease) in other liabilities	(26)	(64)
Net cash provided by operating activities	$ 548	$ (115)
INVESTING ACTIVITIES		
Increase in investments in time deposits with other financial institutions	$ 0	$ (2)
Increase in investment securities	(2,895)	(5,523)
Net decrease (increase) in loans	(1,098)	(7,741)
Decrease in premises and equipment	(6)	9
Net decrease (increase) in other assets	1,492	(426)
Net cash provided by investing activities	$ (2,507)	$(13,683)
FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, savings accounts, and money market accounts	$ 1,467	$ 15,105
Net increase (decrease) in time deposits	8,909	(5,828)

	Three Months Ended March 31, 1992	1991
Increase (decrease) in securities sold under agreement to repurchase	59	235
Net cash provided by financing activities	$ 10,435	$ 9,512
Increase (decrease) in cash and cash equivalents	$ 8,476	$ (4,286)
Cash and cash equivalents, beginning of period	13,567	28,154
Cash and cash equivalents, end of period	$ 22,043	$ 23,868

The accompanying notes are an integral part of these statements.

FIRST REGIONAL BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1992
(Unaudited)

NOTE 1 - The consolidated financial statements include the accounts of First Regional Bancorp (the Company), a bank holding company, and its wholly-owned subsidiary, First Regional Bank (the Bank). Certain amounts in the 1991 financial statements have been reclassified to be comparable with the classification used in the 1992 financial statements.

In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position as of March 31, 1992 and December 31, 1991 and the results of operations for the three month periods ended March 31, 1992 and 1991.

While the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the financial statements and the notes included in the Company's 1991 annual report.

NOTE 2 - Per share information is based on the number of common shares outstanding, which was 2,157,800 for 1992 and 2,154,800 for 1991. No adjustment has been made for outstanding stock options. If all outstanding stock options had been exercised, they would have had a material dilutive effect, but no options were exercised during the first quarter of 1992.

NOTE 3 - As of March 31, 1992 the Bank had a total of $391,000 in standby letters of credit outstanding. No losses are anticipated as a result of these transactions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUMMARY

First Regional Bancorp did not conduct any significant business activities independent of First Regional Bank. The following discussion and analysis relates primarily to the Bank.

At March 31, 1992 total assets were $147,076,000 compared to $136,858,000 at December 31, 1991, an increase of $10,218,000 or 8%. For the most part, this growth was the result of a increase in deposits of $10,376,000, or 8%, to $132,806,000 on March 31, 1992 from $122,430,000 at December 31, 1991; much of this growth took place in time deposits, with growth in that sector being supplemented by a modest increase in the area of demand deposits. The deposit growth led to higher levels of liquid assets, with Net loans actually declining slightly, to $106,919,000 at March 31 compared to a level of $107,757,000 at December 31, 1991.

The Company earned a profit of $177,000 in the three months ended March 31, 1992, compared with the prior year's first quarter when a profit of $101,000 was recorded. The increase in earnings primarily reflected the growth in earning assets, which combined with stability in interest rates in the first quarter, resulted in higher levels of net revenue.

NET INTEREST INCOME

Total revenue from earning assets rose by $153,000 (5%) for the three months ended March 31, 1992 compared to the same period in 1991. This increase in revenue was due to the continued growth in the Bank's loan portfolio throughout 1991, which resulted in a significantly higher average level of loans outstanding in the first quarter of 1992 than for the same period in 1991. This growth was more than sufficient to offset the effects of the lower level of interest rates which prevailed in 1992 compared to 1991. The flow of funds into the loan portfolio, however, resulted in a decline in investment securities and funds sold, which in combination with the lower 1992 interest rates gave rise to lower levels of income on these categories of assets. Despite the large increase in deposits, particularly time deposits, interest on deposits fell by $317,000 (21%) to $1,150,000 for the first three months of 1992 compared to $1,467,000 in the first quarter of 1991, because in this area the decline in interest rates more than outweighed the effects of higher deposit levels. Thus, the first quarter of 1992 saw an increase in revenue from earning assets at the same time that interest expense was declining, and the combined effect of these changes was net revenue from earning assets of $1,976,000 for the first three months of 1992 compared to $1,506,000 for the same period in 1991.

OPERATING INCOME

During the first three months of 1992 net gains on sales of investment securities of $6,000 were realized; by comparison, in the same period of 1991 net losses of $32,000 were realized on sales of investment securities. Other revenue declined slightly in 1992, from $99,000 for the three months ended March 31, 1991 to $94,000 in the corresponding period of 1992. The decrease in this category of income was due to lower levels of income from service charges on deposit accounts, as well as reduced fees on letter of credit transactions The net effect of the above changes was that operating income increased by $41,000 (69%) to $100,000 in the first quarter of 1992 from a total of $59,000 for the same period of 1991.

PROVISION FOR POSSIBLE LOAN LOSSES

The allowance for possible loan losses in intended to reflect known and inherent risks in the loan portfolio. The allowance for possible loan losses is increased by provisions for possible loan losses, and is decreased by net loan chargeoffs. Management continues to evaluate the loan portfolio in light of many factors, including loan loss experience and current economic conditions. Management believes the allowance for possible loan losses is adequate to provide for losses that might be reasonably anticipated.

The allowance for possible loan losses was $2,805,000 and $2,400,000 (or 2.56% and 2.18% of gross outstanding loans) at March 31, 1992 and December 31, 1991 respectively. Reflecting a continuing conservative posture in the face of a recessionary economic climate as well as anticipated future loan growth, provisions for possible loan losses were $400,000 for the first quarter of 1992 as opposed to $160,000 for the three month period ended March 31, 1991. In the first quarter of 1992 the Company experienced net recoveries of previously charged off loans of $5,000; for the same period in 1991 the Company experienced net recoveries of $69,000.

OPERATING EXPENSES

Operating expenses continued their year-to-year increases in the first quarter of 1992 compared to the same period of 1991. Operating expenses rose from a total of $1,346,000 for the three months ended March 31, 1991 to $1,407,000 for the same period in 1992.

Salary and related benefits decreased from $566,000 for the three month period ended March 31, 1991 to a total of $559,000 for the same period in 1992, primarily due to restraint in the hiring and compensation of personnel in the various departments. Reflecting cost of living clauses in premises leases, occupancy expense rose slightly, to $165,000 in the first quarter of 1992 from $154,000 for the same period in 1991. Other operating expenses were also somewhat higher in 1992 versus the prior year, rising from $566,000 for the first three months of 1991 to a corresponding figure of $683,000 in 1992 largely due to increases in the costs of services provided to large deposit relationships which in turn reflect higher deposit levels from these depositors in 1992 compared to the prior year.

The combined effects of the above-described factors resulted in income before taxes of $269,000 in the first quarter of 1992 as compared with $119,000 for the same period in 1991. Reflecting the higher level of income experienced thus far in 1992 compared to the prior year, the provision for taxes for the first quarter of 1992 was $92,000, versus a total of $18,000 recorded for the three months ended March 31, 1991. As a result, the Company achieved net income of $177,000 for the three months ended March 31, 1992, an increase from the $101,000 net income figure for the same period in 1991.

LIQUIDITY, SOURCES OF FUNDS, AND CAPITAL RESOURCES

The Company's financial position remains highly liquid. Total liquid assets (cash and due from banks, time deposits with other financial institutions, investment securities, and funds sold) stood at 26.3% of total deposits at March 31, 1992. This level represents an increase from the 19.2% liquidity level which existed on December 31, 1991. In addition, at March 31, 1992 over $22 million of the Bank's total loans consisted of government guaranteed loans, which represent a significant source of liquidity due to the active secondary market which exists for these assets. The ratio of net loans to deposits was 80.5% and 88.0% as of March 31, 1992 and December 31, 1991, respectively.

Because customer deposits are the Company's principal funding source outside of its capital, management has attempted to match rates and maturities of its deposits with its investment and loan portfolios as part of its liquidity and asset and liability management policies. The objective of these policies is to limit the fluctuations of net interest income resulting from interest rate changes. The table which follows indicates the repricing or maturity characteristics of the major categories of the Bank's assets and liabilities, and thus the relative sensitivity of the Bank's net interest income to changes in the overall level of interest rates. A positive "gap" for a period indicates that an upward or downward movement in the level of interest rates would cause a corresponding change in net interest income, while a negative "gap" implies that an interest rate movement would result in an inverse change in net interest income.

Category	Floating Rate	Less than one month	One month but less than six months	Six months but less than one year	One year but less than five years	Five years or more	Non-interest earning or bearing	Total
Fed funds sold	9,500	0	0	0	0	0	0	9,500
Time deposits with other banks	0	100	100	0	0	0	0	200
Investment securities	0	9,390	3,300	0	0	0	0	12,690
Subtotal	9,500	9,490	3,400	0	0	0	0	22,390
Loans	103,691	2	3,082	144	0	0	0	106,919
Total earning assets	113,191	9,492	6,482	144	0	0	0	129,309
Cash and due from banks	0	0	0	0	0	0	12,543	12,543
Premises and equipment	0	0	0	0	0	0	321	321
Investment in real estate	0	0	0	0	0	0	2,613	2,613
Other assets	0	0	0	0	0	0	2,290	2,290
Total non-earning assets	0	0	0	0	0	0	17,767	17,767
Total assets	113,191	9,492	6,482	144	0	0	17,767	147,076
Funds purchased	1,575	0	0	0	0	0	0	1,575
Repurchase agreements	0	0	0	0	0	0	0	0
Subtotal	1,575	0	0	0	0	0	0	1,575
Savings deposits	4,767	0	0	0	0	0	0	4,767
Money market deposits	73,661	0	0	0	0	0	0	73,661
Time deposits	0	15,167	15,613	5,391	119	0	0	36,290
Total bearing liabilities	80,003	15,167	15,613	5,391	119	0	0	116,293

Category	Floating Rate	Less than one month	One month but less than six months	Six months but less than one year	One year but less than five years	Five years or more	Non-interest earning or bearing	Total
Demand deposits	0	0	0	0	0	0	18,088	18,088
Other liabilities	0	0	0	0	0	0	485	485
Equity capital	0	0	0	0	0	0	12,210	12,210
Total non-bearing liabilities	0	0	0	0	0	0	30,783	30,783
Total liabilities	80,003	15,167	15,613	5,391	119	0	30,783	147,076
GAP	33,188	(5,675)	(9,131)	(5,247)	(119)	0	(13,016)	0
Cumulative GAP	33,188	27,513	18,382	13,135	13,016	13,016	0	0

As the table indicates, the vast majority of the Company's assets are either floating rate or, if fixed rate, have extremely short maturities. Since the yields on these assets quickly adjust to reflect changes in the overall level of interest rates, there are no significant unrealized gains or losses with respect to the Company's assets, nor is there much likelihood of large realized or unrealized gains or losses developing in the future. For this reason, realized or unrealized gains or losses are not expected to have any significant impact on the Company's future operating results or liquidity.

The Bank's investment portfolio continues to be composed of high quality, low risk securities, primarily U.S. Treasury or Agency securities or short term market rate preferred stocks of the highest ratings. As mentioned above, the Bank realized gains of $6,000 on sales of securities in the first three months of 1992; by comparison, net losses of $32,000 were incurred in the comparable period of 1991. As of March 31, 1992 the Bank's investment portfolio contained no gross unrealized gains and gross unrealized losses of $2,000; by comparison, at March 31, 1991 the portfolio contained gross unrealized gains of $3,000 and gross unrealized losses of $302,000. The Bank's intent when purchasing securities is to hold them for the foreseeable future or until maturity, and the Company's financial position gives it the ability to do so should conditions warrant.

The Company continues to enjoy a strong capital position. Total capital was $12,210,000 and $12,033,000 as of March 31, 1992 and December 31, 1991, respectively. The Company's capital ratios for those dates in comparison with regulatory capital requirements were as follows:

	3-31-92	12-31-91
Leverage Ratio (Tier I Capital to Assets):		
Regulatory requirement	3.00%	3.00%
First Regional Bancorp	8.30%	8.79%

In addition, bank regulators have issued new risk-adjusted capital guidelines which assign risk weighting to assets and off-balance sheet items and place increased emphasis on common equity. The Company's risk adjusted capital ratios for the dates listed in comparison with the risk adjusted regulatory capital requirements were as follows:

	3-31-92	12-31-91
Tier I Capital to Assets:		
Regulatory requirement	3.63%	3.63%
First Regional Bancorp	12.42%	9.75%
Tier I + Tier II Capital to Assets:		
Regulatory requirement	7.25%	7.25%
First Regional Bancorp	13.92%	11.00%

The Company believes that it will continue to meet all applicable capital standards.

INFLATION

The impact of inflation on the Company differs significantly from other industries, since virtually all of its assets and liabilities are monetary. During periods of rising inflation, companies with net monetary assets will always experience a reduction in purchasing power. Inflation continues to have an impact on salary, supply, and rent expenses, but the rate of inflation in general and its impact on these expenses in particular has remained moderate in recent years.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Litigation

The Company is a party as plaintiff to a number of lawsuits that have arisen in connection with the normal conduct of its banking business. It is management's opinion, based upon advice of legal counsel, that none of the pending litigation will have a materially adverse effect on the Company or the Bank.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the first quarter of 1992, no items were submitted to a vote of the Company's shareholders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

The only exhibit to this report is Exhibit 20, the Company's March 31, 1992 quarterly financial statement sent to shareholders.

Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the first quarter of 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST REGIONAL BANCORP

Date: May 14, 1992

Jack A. Sweeney, Chairman of the Board
and Chief Executive Officer

Date: May 14 1992

Thomas McCullough, Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Exhibit Description
20	March 31, 1992 quarterly financial statement sent to shareholders

Q 20328

Q 35085

MAY 1 2 1992

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92 14 0677

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992 OR

FG2-2228

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number: 1-6901

FORT HOWARD CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

39-1090992
(I.R.S. Employer Identification Number)

1919 South Broadway, Green Bay, Wisconsin
(Address of principal executive offices)

54304
(Zip Code)

Registrant's telephone number including area code: 414/435 8821

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No ______

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1992
Voting Common Stock, par value $.01 per share	5,862,685

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PART I. FINANCIAL INFORMATION

FORT HOWARD CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	For The Three Months Ended March 31,	
	1992	1991
	(In thousands, except per share data)	
Net sales	$276,266	$272,954
Cost of sales	170,101	172,655
Gross income	106,165	100,299
Selling, general and administrative	26,105	24,824
Amortization of goodwill	14,165	14,165
Operating income	65,895	61,310
Interest expense	83,869	95,829
Other income, net	(106)	(682)
Loss before taxes	(17,868)	(33,837)
Income tax credit	(476)	(10,233)
Loss before equity earnings, extraordinary item and adjustment for accounting change	(17,392)	(23,604)
Equity in net loss of unconsolidated subsidiaries	--	(6,936)
Net loss before extraordinary item and adjustment for accounting change	(17,392)	(30,540)
Extraordinary item -- gain on debt repurchases (net of income taxes)	--	3,768
Adjustment for adoption of SFAS 106	(10,587)	--
Net loss	$(27,979)	$(26,772)
Earnings (loss) per share:		
Net loss before extraordinary item and adjustment for accounting change	$ (2.96)	$ (6.61)
Extraordinary item	--	.81
Adjustment for adoption of SFAS 106	(1.81)	--
Net loss	$ (4.77)	$ (5.80)
Average shares outstanding	5,863	4,619

The accompanying notes are an integral part of these consolidated condensed financial statements.

FORT HOWARD CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 1992	December 31, 1991
	(In thousands)	
Assets		
Current assets:		
Cash	$ 6,458	$ 9,597
Receivables - net	103,351	90,248
Inventories	90,128	95,048
Deferred income taxes	10,059	--
Total current assets	209,996	194,893
Property, plant and equipment	1,521,157	1,487,893
Less: Accumulated depreciation	394,122	378,806
Net property, plant and equipment	1,127,035	1,109,087
Goodwill, net of accumulated amortization	2,061,360	2,075,525
Other assets	87,278	90,297
Total assets	$3,485,669	$3,469,802
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 74,206	$ 81,427
Interest payable	54,396	33,382
Income taxes payable	7,847	6,886
Other current liabilities	45,689	66,244
Current portion of long-term debt	2,854	4,519
Total current liabilities	184,992	192,458
Long-term debt	2,966,043	2,929,589
Deferred income taxes	262,932	262,376
Other liabilities	28,121	10,291
Voting Common Stock with put right	13,028	12,963
Shareholders' equity:		
Voting Common Stock	600,465	600,465
Non-Voting Common Stock	--	--
Cumulative translation adjustment	3,497	7,025
Retained earnings (deficit)	(573,409)	(545,365)
Total shareholders' equity	30,553	62,125
Total liabilities and shareholders' equity	$3,485,669	$3,469,802

The accompanying notes are an integral part of these consolidated condensed financial statements.

FORT HOWARD CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	For The Three Months Ended March 31,	
	1992	1991
	(In thousands)	
Cash provided from (used for) operations:		
Net loss	$(27,979)	$(26,772)
Depreciation and amortization	36,719	46,324
Interest capitalized to long-term debt	29,448	33,452
Deferred income taxes (credit)	(9,503)	(6,443)
Employee stock compensation	237	314
Equity in net loss of unconsolidated subsidiaries	--	6,936
Pre-tax gain on debt repurchases	--	(6,078)
Pre-tax adjustment for adoption of SFAS 106	17,076	--
Increase in receivables	(13,103)	(11,024)
Decrease (increase) in inventories	4,920	(5,150)
Decrease in refundable income taxes	--	700
Decrease in accounts payable	(7,221)	(14,019)
Increase in interest payable	21,014	23,424
Increase (decrease) in income taxes payable	961	(3,507)
All other, net	(20,268)	(23,267)
Cash provided from operations	32,301	14,890
Cash used for investment activity -- Additions to property, plant and equipment	(40,840)	(26,967)
Cash provided from (used for) financing activities:		
Proceeds from long-term borrowings	198,000	57,200
Repayment of long-term debt	(192,600)	(110,009)
Issuance of common stock	--	59,166
Net cash provided from financing activities	5,400	6,357
Decrease in cash	(3,139)	(5,720)
Cash at beginning of period	9,597	18,396
Cash at end of period	$ 6,458	$ 12,676
Supplemental Cash Flow Disclosures:		
Interest paid	$ 31,539	$ 37,539
Income taxes paid - net	488	306

The accompanying notes are an integral part of these consolidated condensed financial statements.

FORT HOWARD CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. **Basis of Presentation**

The consolidated condensed financial statements reflect all adjustments (consisting only of normally recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. These financial statements should be read in conjunction with the Company's annual report on Form 10-K for 1991.

2. **Earnings (Loss) Per Share**

Earnings (loss) per share is computed on the basis of the average number of common shares outstanding during the periods. The average number of shares outstanding for the three months ended March 31, 1992 and 1991 were 5,862,685 and 4,618,798, respectively.

3. **Inventories**

Inventories consist of:

	March 31, 1992	December 31, 1991
	(In thousands)	
Raw materials and supplies	$42,741	$48,236
Finished and partly-finished products	47,387	46,812
	$90,128	$95,048

4. **Property, Plant and Equipment**

Effective January 1, 1992, the Company prospectively changed its estimates of the depreciable lives of certain machinery and equipment. These changes were made to better reflect the estimated periods during which such assets will remain in service. For the three months ended March 31, 1992, the change had the effect of reducing depreciation expense by $9.9 million and reducing net loss by $6.1 million.

5. **Long-Term Debt**

During the three months ended March 31, 1992, the Company retired the remaining balance of its 7% Notes of approximately $146.4 million from borrowings under its Revolving Credit Facility. At March 31, 1992, the available capacity under the Revolving Credit Facility was $119.0 million.

Effective March 2, 1992, the Company redeemed its $44 million, variable interest rate, Development Authority of Effingham County Pollution Control Revenue Refunding Bonds, Series 1988 (the "Bonds") and terminated a related $44.9 million Support Letter of Credit. Funds for the redemption were provided from $2 million of unexpended funds held in escrow and the issuance of $42 million principal amount of new senior unsecured Bonds bearing interest at a fixed rate of 7.90% and maturing October 1, 2005.

6. **Employee Benefit Plans**

Employees retiring prior to February 1, 1990 from the Company's U.S. tissue operations who have met certain eligibility requirements are entitled to postretirement health care benefit coverage. These benefits are subject to deductibles, copayment provisions, a lifetime maximum benefit and other limitations. In addition, employees who retire after January 31, 1990, at age 55 or older with ten years of service may purchase health care benefit coverage from the Company up to age 65. The Company has reserved the right to change or terminate this benefit at any time. Prior to 1992, the annual cost of these benefits had been expensed as claims and premiums were paid. Employees of the Company's U.K. tissue operations are not entitled to Company-provided postretirement benefit coverage.

As of January 1, 1992, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standard requires that the expected cost of postretirement health care benefits be charged to expense during the years that employees render service. The cumulative effect on years prior to 1992 of adopting SFAS No. 106 is stated separately in the Company's consolidated condensed statement of income for the three months ended March 31, 1992 as a one-time after-tax charge of $10.6 million. This change in accounting principle, excluding the cumulative effect, decreased operating income for the three months ended March 31, 1992 by $0.3 million.

The following table sets forth the components of the plan's unfunded accumulated postretirement benefit obligation as of January 1, 1992 (in thousands):

Accumulated postretirement benefit obligation:	
Retirees	$ (5,627)
Fully eligible active plan participants	(2,162)
Other active plan participants	(9,287)
Accrued postretirement benefit cost	$(17,076)

The medical trend rate assumed in the determination of the accumulated postretirement benefit obligation begins at 15% in 1992, decreases 1% per year to 7% for 2000 and remains at that level thereafter. Increasing the assumed medical trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of January 1, 1992 by $2.4 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost of the first quarter of 1992 by $0.1 million.

The discount rate used in determining the accumulated postretirement benefit obligation was 8% compounded annually.

7. Income Taxes

The Company has adopted SFAS No. 109, "Accounting for Income Taxes" effective January 1, 1992. The Company had previously adopted SFAS No. 96, "Accounting for Income Taxes" in 1988. As a result of the accounting change, the Company reclassified certain deferred tax benefits from long-term deferred income taxes payable to current assets in the accompanying 1992 consolidated condensed balance sheet. The Company has not recorded a valuation allowance with respect to this deferred income tax asset. The adoption of SFAS No. 109 had no effect on the Company's provision for income taxes for the three months ended March 31, 1992.

8. Legal Proceedings

The Company and its subsidiaries are parties to lawsuits and state and federal administrative proceedings incidental to their businesses. Although the final results in such suits and proceedings cannot be predicted with certainty, it is the present opinion of management that they will not have a material adverse effect on the Company's financial condition.

FORT HOWARD CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

First Quarter 1992 Compared to 1991

	For the Three Months Ended March 31, 1992	1991
	(In thousands, except percentages)	
Net sales		
Domestic Tissue	$238,819	$234,078
Other	37,447	38,876
Consolidated	$276,266	$272,954
Gross margins		
Domestic Tissue	40.8%	39.3%
Consolidated	38.4%	36.7%
Net loss	$(27,979)	$(26,772)

For the first quarter of 1992, the Company's net loss increased 4.5% to $28.0 million from $26.8 million in the first quarter of 1991. Excluding the effects of nonrecurring items consisting of changes in depreciable lives and an adjustment for an accounting change in 1992, described below, and equity earnings and an extraordinary item in 1991, the net loss in the first quarter of 1992 would have declined 10.3% compared to the first quarter of 1991.

The 2.0% increase in domestic tissue net sales in the first quarter of 1992 compared to 1991 was attributable to volume increases in the consumer and commercial markets, largely offset by lower net selling prices in the first quarter of 1992 compared to 1991. A progressive decline in commercial and consumer market selling prices occurred during 1991. Low industry operating rates and aggressive competitive activity among tissue producers resulting from the recession and additions to capacity in the industry adversely affected tissue industry operating conditions in 1991. These conditions and the lower selling prices persisted during the first quarter of 1992.

Net sales of the Company's United Kingdom tissue operations decreased 0.5% in the first quarter of 1992 compared to 1991 primarily due to the effects of lower exchange rates during the first quarter of 1992 compared to 1991 which offset volume increases experienced during the quarter.

Effective January 1, 1992, the Company prospectively changed its estimates of the depreciable lives of certain machinery and equipment. These changes were made to better reflect the estimated periods during which such assets will remain in service. As a result, the Company believes, based primarily on an analysis of publicly available information, that the lives over which the Company depreciates the cost of its operating equipment and other capital assets will more closely approximate industry norms. For the three months ended March 31, 1992, the change had the effect of reducing depreciation expense by $9.9 million and reducing net loss by $6.1 million. For the year, the effect of this change is expected to reduce depreciation expense by approximately $42.0 million and net loss by $26.0 million.

Domestic tissue gross margins increased in the first quarter of 1992 compared to 1991 primarily due to the reduced depreciation expense associated with the Company's change in its estimates of the depreciable lives of certain machinery and equipment offset in part by the decline in net selling prices.

Selling, general and administrative expenses, as a percent of net sales, increased to 9.4% in the first quarter of 1992 compared to 9.1% in 1991 principally due to the significant effects of the lower net selling prices on this relationship.

Interest expense declined almost $12.0 million in the first quarter of 1992 compared to 1991. Debt repurchased with the proceeds of a private placement of common stock in 1991 reduced the Company's outstanding indebtedness in 1992 compared to 1991. Lower average interest rates, in part due to borrowings under the Company's Revolving Credit Facility to repurchase high yield subordinated debt, also contributed to lower interest expense.

Results for the first three months of 1991 were favorably impacted by an extraordinary gain of $3.8 million (net of income taxes) related to the debt repurchases.

The Company's results in the first quarter of 1992 exclude any equity in the net losses of Sweetheart Holdings Inc. ("Sweetheart") for the period compared to equity in net losses totaling $6.9 million recorded in the first quarter of 1991. The Company discontinued the recording of equity in the net losses of Sweetheart, an unconsolidated subsidiary, when its investment in Sweetheart was reduced to zero in the fourth quarter of 1991.

The income tax credits for the first quarters of 1992 and 1991 principally reflect the reversal of previously provided deferred income taxes.

As of January 1, 1992, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standard requires that the expected cost of postretirement health care benefits be charged to expense during the years that employees render service. The cumulative effect on years prior to 1992 of adopting SFAS No. 106 is stated separately in the Company's consolidated condensed statement of income for the three months ended March 31, 1992 as a one-time after-tax charge of $10.6 million. This change in accounting principle, excluding the cumulative effect, decreased operating income for the three months ended March 31, 1992 by $0.3 million.

Financial Condition

For the first three months of 1992, cash decreased $3.1 million. Capital additions of $40.8 million and debt repayments of $192.6 million, principally for the retirement of the Company's 7% Notes and the redemption of $44 million of variable interest rate Bonds (defined below), were funded by cash provided from operations of $32.3 million, borrowings under the Company's Revolving Credit Facility of $156.0 million and the issuance of $42 million of fixed interest rate Bonds.

Effective March 2, 1992, the Company redeemed its $44 million, variable interest rate, Development Authority of Effingham County Pollution Control Revenue Refunding Bonds, Series 1988 (the "Bonds") and terminated a related $44.9 million Support Letter of Credit. Funds for the redemption were provided from $2 million of unexpended funds held in escrow and the issuance of $42 million principal amount of new senior unsecured Bonds bearing interest at a fixed rate of 7.90% and maturing October 1, 2005.

The Company has a Revolving Credit Facility under the Company's Bank Credit Agreement with a final maturity of December 31, 1996, which may be used for general corporate purposes. At March 31, 1992, the Company had $119.0 million in available capacity under the Revolving Credit Facility.

PART II. OTHER INFORMATION

1. Legal Proceedings

None

2. Changes in Securities

None

3. Defaults Upon Senior Securities

None

4. Submission of Matters to a Vote of Security Holders

None

5. Other Information

None

6. Exhibits and Reports on Form 8-K

Exhibit No.	
4.A	Form of 12-3/8% Senior Subordinated Note Indenture dated as of November 1, 1988, between the Company and the State Street Bank and Trust Company, Trustee. (Incorporated by reference to Exhibit 4.1 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
4.B	Form of 12-5/8% Subordinated Debenture Indenture dated as of November 1, 1988, between the Company and United States Trust Company, Trustee. (Incorporated by reference to Exhibit 4.2 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
4.C	Form of 14-1/8% Junior Subordinated Discount Debenture Indenture dated as of November 1, 1988, between the Company and Ameritrust Company National Association, Trustee. (Incorporated by reference to Exhibit 4.3 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
4.D	Form of 14-5/8% Junior Subordinated Debenture Indenture dated as of November 1, 1988, between the Company and Ameritrust Company National Association, Trustee. (Incorporated by reference to Exhibit 4.4 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)
4.E	Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.5 as filed with Amendment No. 2 to the Form S-1 of Fort Howard Corporation on October 25, 1988.)

Exhibit No.	
4.F	Amendment No. 1 dated February 21, 1989, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.E.1 as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1989.)
4.G	Amendment No. 2 dated October 20, 1989, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.E.2 as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1989.)
4.H	Amendment No. 3 dated November 13, 1989, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.E.3 as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1989.)
4.I	Instrument of Designation, Appointment and Acceptance dated as of June 22, 1988, among the Company, Bankers Trust Company and Security Pacific National Bank. (Incorporated by reference to Exhibit 4.7 as filed with post-effective Amendment No. 2 to the Form S-1 of Fort Howard Corporation on February 8, 1990.)
4.J	Amendment No. 4 dated November 9, 1990, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.J as filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1990.)
4.K	Amendment No. 5 dated as of December 19, 1990, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.K as filed with the Company's annual report on Form 10-K for the year ended December 31, 1990.)
4.L	Amendment No. 6 dated as of September 11, 1991, to Amended and Restated Credit Agreement dated as of October 24, 1988. (Incorporated by reference to Exhibit 4.A as filed with the Company's report on Form 8-K on September 13, 1991.)
4.M	Form of Senior Secured Floating Rate Note Purchase Agreement dated as of September 11, 1991. (Incorporated by reference to Exhibit 4.B as filed with the Company's report on Form 8-K on September 13, 1991.)

Exhibit No.

4.N Amendment No. 7 dated as of December 2, 1991, to Amended and Restated Credit Agreement dated as of October 24, 1988, and Amendment No. 1 dated as of December 2, 1991, to the Senior Secured Floating Rate Note Purchase Agreement dated as of September 11, 1991. (Incorporated by reference to Exhibit 4.N as filed with the Company's annual report on Form 10-K for the year ended December 31, 1991.)

NOTE: Pursuant to the provisions of paragraph (b)(4)(iii) of Item 601 of Regulation S-K, the registrant hereby undertakes to furnish to the Commission upon request copies of the instruments pursuant to which various entities hold long-term debt of the registrant or its consolidated or unconsolidated subsidiaries, none of which instruments govern indebtedness exceeding 10% of the total assets of the registrant and its subsidiaries on a consolidated basis.

b) No reports on Form 8-K were filed by the Company during the quarter for which this report is filed.

FORT HOWARD CORPORATION

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORT HOWARD CORPORATION
Registrant

May 11, 1992

Kathleen J. Hempel, Vice Chairman and
Chief Financial Officer

May 11, 1992

James W. Nellen II, Vice President and
Secretary

May 11, 1992

Charles L. Szews
Controller (Principal Accounting Officer)

C/O 20905
Q.35096

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

/ X / Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended May 31, 1992 or

/ / Transition report pursuant to Section 13 or 15(d) of the Securitie[illegible] Exchange Act of 1934

For the transition period from ______________ to ______________

PROCESSED BY
16-16 R
JUL 17 1992

Commission file number 0-15838

NEW JERSEY STEEL CORPORATI[illegible]N
(Exact name of registrant as specified in i[illegible])

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

[illegible]VARE
(State [illegible] jurisdiction of incorp[illegible] organization)

22-2[illegible]
(I.R.S. Employer Identification No.)

439

NORTH [illegible]MAN ROAD, SAYREVILLE, NEW JERSEY 08872
(Address [illegible] principal executive offices) (Zip Code)

Registrant's telephone number, include area code (908) 721-6600

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes _ No _

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 31, 1992.

$.01 Par Value Common Stock (Title of Class)	5,866,870 (Number of shares outstanding)

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NEW JERSEY STEEL CORPORATION

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NEW JERSEY STEEL CORPORATION AND SUBSIDIARY

Condensed Consolidated Balance Sheets

May 31, 1992 and November 30, 1991

(In Thousands of Dollars)

Assets	May 31, 1992 (Unaudited)	Nov 30, 1991
Current assets:		
Cash and cash equivalents	$ 8,955	12,602
Receivables:		
Trade, net	16,584	15,292
Trade - due from equity investee	4,541	3,967
Other	332	768
Current installments of notes receivable - affiliate	-	292
Net receivables	21,457	20,319
Inventories	22,687	15,883
Prepaid expenses and other current assets	56	408
Total current assets	53,155	49,212
Property, plant and equipment, net	31,994	33,270
Equity investments	-	833
Other assets	1,457	1,307
Real estate held for investment, net	15,217	15,470
	$ 101,823	100,092

See accompanying notes to condensed consolidated financial statements.

Liabilities and Stockholders' Equity	May 31, 1992 (Unaudited)	Nov 30, 1991
Current liabilities:		
Accounts payable - trade	$ 14,986	14,323
Due to affiliate	114	157
Accrued expenses	2,092	2,302
Total current liabilities	17,192	16,782
Stockholders' equity:		
Preferred stock	-	-
Common stock	59	59
Additional paid-in capital	133,625	133,625
Accumulated deficit	(49,053)	(50,374)
Total stockholders' equity	84,631	83,310
Commitments and contingencies (note 7)		
	$ 101,823	100,092

NEW JERSEY STEEL CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Operations

(In Thousands of Dollars. Except Share Amounts)

	Three-month period ended May 31		Six-month period ended May 31	
	1992	1991	1992	1991
	(Unaudited)		(Unaudited)	
Net sales	$ 25.870	32.342	45.583	51.352
Net sales - equity investee	2.107	3.422	3.962	5.205
Cost of sales	25.540	35.921	46.463	56.516
Gross profit (loss)	2.437	(157)	3.082	41
Selling. general and administrative expenses	1.397	1.413	2.711	2.896
Operating income (loss)	1.040	(1.570)	371	(2.855)
Other income:				
Interest income	87	111	209	317
Rental income	250	225	500	450
Gain on insurance settlement (note 8)	-	-	1.125	-
	337	336	1.834	767
Income (loss) before income tax provision (benefit). equity in operations of investee and extraordinary credit	1.377	(1.234)	2.205	(2.088)
Income tax provision (benefit)	551	-	882	(342)
Income (loss) before equity in operations of investee and extraordinary credit	826	(1.234)	1.323	(1.746)
Equity in operations of investee	(433)	-	(833)	-
Income (loss) before extraordinary credit	393	(1.234)	490	(1.746)
Extraordinary credit - utilization of net operating loss carryforwards	512	-	831	-
Net income (loss)	$ 905	(1.234)	1.321	(1.746)
Per common share:				
Income (loss) before extraordinary credit	.06	(.21)	.09	(.30)
Extraordinary credit	.09	-	.14	-
Net income (loss)	$ .15	(.21)	.23	(.30)
Weighted average number of common shares	5.866.870	5.853.957	5.866.870	5.850.848

See accompanying notes to condensed consolidated financial statements.

NEW JERSEY STEEL CORPORATION AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

(In Thousands of Dollars)

	Six-month period ended May 31	
	1992	1991
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 1,321	(1,746)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	2,853	3,353
Provision for losses on accounts receivable	270	156
Loss from equity investment	833	-
Changes in assets and liabilities:		
Increase in accounts receivable	(1,700)	(2,042)
Increase in inventories	(6,804)	(334)
Decrease in prepaid expenses and other current assets	352	162
(Increase) decrease in other assets	(150)	7
Increase (decrease) in accounts payable - trade	728	(3,375)
Decrease in due to affiliate and accrued expenses	(318)	(1,260)
Net cash used in operating activities	(2,615)	(5,079)
Cash flows from investing activities:		
Capital expenditures	(1,324)	(1,680)
Repayment of notes receivable - affiliate	292	584
Sales/maturities of short-term investments	-	166
Net cash used in investing activities	(1,032)	(930)
Cash flows from financing activities:		
Dividends paid	-	(1,756)
Proceeds from exercise of stock options	-	48
Net cash used in financing activities	-	(1,708)
Net decrease in cash and cash equivalents	(3,647)	(7,717)
Cash and cash equivalents at beginning of period	12,602	13,210
Cash and cash equivalents at end of period	$ 8,955	5,493

See accompanying notes to condensed consolidated financial statements.

NEW JERSEY STEEL CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

May 31. 1992 and November 30. 1991

(In Thousands of Dollars. Except Share Amounts)

(Unaudited)

(1) Interim Results

The unaudited condensed consolidated financial statements of New Jersey Steel Corporation and subsidiary (the Company). in the opinion of management. include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of such periods. The results of operations for the three- and six-month periods ended May 31. 1992 and 1991 are not necessarily indicative of the results to be expected for the entire year.

(2) Statements of Cash Flows

During the six-month periods ended May 31. 1992 and 1991. the Company paid approximately $52 and $60. respectively. for income taxes.

(3) Capital Stock

During the three-month period ended May 31. 1992. no stock options were exercised. During the three-month period ended May 31. 1991. the Company issued 2.500 shares of common stock resulting from the exercise of stock options for aggregate proceeds of approximately $8.

(4) Inventories

Inventories consist of the following:

	May 31. 1992	Nov.30. 1991
Finished goods	$ 10.666	3.851
Work-in-process	981	849
Raw materials. spare parts and supplies	11.040	11.183
	$ 22.687	15.883

(5) Per Common Share Amounts

Per common share amounts are based on the weighted average number of shares of common stock outstanding during each period. The dilutive effect of stock options for the three- and six-month periods ended May 31. 1992 was not material. The effect of stock options for the three- and six-month periods ended May 31. 1991 has been excluded from the calculation due to their anitidilutive effect.

NEW JERSEY STEEL CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements. Continued

(In Thousands of Dollars. Except Share Amounts)

(Unaudited)

(6) Incentive Stock Option Plan

Under the terms of the Company's Incentive Stock Option Plan. certain key employees may be granted options at prices equal to the fair market value of the Company's common stock at the date of grant. During the three-month period ended May 31. 1991. no options were granted or cancelled and 2.500 options were exercised.

(7) Commitments and Contingencies

The Company is a defendant in an action pending in the Supreme Court of New York. The case arises out of a 1983 Stock Purchase Agreement among the Company. Monteforno. S.A. (Monteforno). a subsidiary of Von Roll Ltd.. the former parent of the Company. and New Jersey Steel Acquisition Corp.. an unrelated company. whereby Monteforno was to sell the Company to New Jersey Steel Acquisition Corp. (the plaintiff). The Company contends that the plaintiff was unable to obtain financing for the transaction. and the Stock Purchase Agreement was never consummated. However. the plaintiff commenced the action alleging that Monteforno breached the Stock Purchase Agreement. that Monteforno and Von Roll Ltd. acted fraudulently in connection with the procurement of a Letter Escrow Agreement. that Von Roll Ltd. tortiously induced the breach of the Stock Purchase Agreement and that all the defendants were unjustly enriched by retaining the benefits of professional services rendered by the plaintiff and its agents and representatives. The complaint seeks in excess of $26.6 million in compensatory damages. an unspecified amount of punitive damages. and specific performance of the Stock Purchase Agreement. together with injunctive and declaratory relief. The Company's legal counsel has advised that the case has been placed on the trial calendar in 1992.

The Company and Von Roll Ltd. believe that the plaintiff's claims in the action are without merit and intend to contest the case vigorously. They have been advised by their legal counsel that in such counsel's opinion (which is based upon the information available to them) it is unlikely that the plaintiff's claims will be upheld in this case. Additionally. on April 1. 1987. Von Roll Ltd. agreed to indemnify the Company for any cost. expense and damage it may incur as a result of the action. However. were the litigation to result in an "ownership change" within the meaning of The Tax Reform Act of 1986. the indemnity would not provide for reimbursement to the Company for any delay. deferral or loss in utilizing the net operating loss or investment tax credit carryforwards after such an ownership change. If the defendants were found to be liable for breach of contract. the court could hold the plaintiff entitled to specific performance and would have the power to fashion a remedy resulting in the transfer of Von Roll Ltd.'s remaining shares (owned subsequent to the Company's initial public offering in May 1987) to the plaintiff.

NEW JERSEY STEEL CORPORATION AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements, Continued

(In Thousands of Dollars, Except Share Amounts)

(Unaudited)

(7) Commitments and Contingencies, cont.

In August 1991, the Company entered into an Administrative Consent Order with the Department of Environmental Protection (DEP) in settlement of certain matters (see notes to consolidated financial statements contained in the Company's annual report on Form 10-K). The Administrative Consent Order provides that the Company will submit an application for a new pollution control permit covering the mill and will conduct certain regional modeling studies in support thereof to demonstrate the mill's impact on the region's air quality. Management believes that the cost of such study will not have a material adverse impact on the Company's financial condition. In the event the emissions from the mill comply with applicable Federal, state and local guidelines, no additional action will be required of the Company, and a new permit will be issued. In the event the mill's current pollution control equipment is found to be inadequate, the Company will have to submit proposed modifications to its existing pollution control system for approval by the DEP and will have to purchase and install such modifications. The Company believes, based on its ongoing testing of its emission levels, that the regional modeling studies will demonstrate that the emissions, as proposed in the new permit application, will have no significant adverse impact on air quality and that no additional modifications to the mill will be required.

The Company is also involved in litigation relating to claims arising out of its operations in the normal course of business. Such claims against the Company are generally covered by insurance. It is the opinion of management that any uninsured or unindemnified liability resulting from existing litigation would not have a material adverse effect on the Company's business or consolidated financial position. There can be no assurance that insurance, including product liability insurance, will be available in the future at reasonable rates.

(8) Nonoperating Income

During fiscal 1989, there was an electrical fire in the Company's melt shop. The fire caused the melt shop to be shut down for approximately three weeks, adversely impacting operating costs and causing shipping disruptions. A claim was filed with the insurance company. In February 1992, the Company finalized the settlement of the claim with its insurance company for the business interruption portion of the claim. The related gain is included in nonoperating income for the six-month period ended May 31, 1992.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three-Month Periods ended May 31, 1992 and May 31, 1991

A summary of the period-to-period changes in the "Condensed Consolidated Statements of Operations" for the three-month periods ended May 31, 1992 and May 31, 1991 is shown below:

	($000)			Percent of Sales	
	1992 (Unaudited)	1991	Inc. (Dec)	1992	1991
Net sales	27,977	35,764	(7,787)	100.0	100.0
Gross profit (loss)	2,437	(157)	2,594	8.7	(0.4)
Selling, general and administrative expenses	1,397	1,413	(16)	5.0	4.0
Interest income	87	111	(24)	0.3	0.3
Other income	250	225	25	0.9	0.6
Income (loss) before income tax provision (benefit), equity in operations of investee and extraordinary credit	1,377	(1,234)	2,611	4.9	(3.5)
Income tax provision (benefit)	551	-	551	(2.0)	-
Income (loss) before equity in operations of investee and extraordinary credit	826	(1,234)	2,060	2.9	(3.5)
Equity in operations of investee	(433)	-	(433)	(1.5)	-
Income (loss) before extraordinary credit	393	(1,234)	1,627	1.4	(3.5)
Extraordinary credit-utilization of net operating loss carryforwards	512	-	512	1.8	-
Net income (loss)	905	(1,234)	2,139	3.2	(3.5)

Net sales decreased 22% to $27,977,000 from $35,764,000 in the second quarter 1992 primarily as a result of a 25% reduction in shipments to 110,000 tons from 147,000 tons in the second quarter of 1991. The decrease in shipment levels reflected the absence of any lower-priced foreign billet or rebar export sales in the second quarter of 1992. The favorable impact of an 18% increase in domestic shipments was partially offset by a slight decrease in average rebar selling prices in the second quarter of 1992 to $249 per ton from $252 per ton in the second quarter of 1991.

The gross profit in the second quarter of 1992 increased to $2,457,000 from a loss of $157,000 in the second quarter of 1991 primarily due to higher domestic shipments, lower scrap prices, lower billet conversion costs and lower rolling mill conversion costs. Scrap prices in the second quarter of 1992 declined to an average of $74 per ton from $83 per ton in the second quarter of 1991.

Selling, general and administrative expenses decreased $16,000 in the second quarter of 1992 to $1,397,000 from $1,413,000 in the second of 1991. Such expenses increased in relation to net sales from 4.0% in the second quarter of 1991 to 5.0% in the first quarter of 1992.

Interest income in the second quarter of 1992 decreased $24,000 to $87,000 from $111,000 in the second quarter of 1991 as a result of lower interest rates.

Other income for the second quarter of 1992 increased $25,000 to $250,000 from $225,000 in the second quarter 1991 as a result of an increase in the rental income from the Company's equity investee.

The Company's income tax provision of $551,000 reflects the recording of income for the second quarter of 1992 as compared to a recorded loss in the second quarter of 1991.

An operating loss incurred by the Company's equity investee resulted in the recording of a loss of $433,000 in the second quarter of 1992.

Six-Month Periods ended May 31, 1992 and May 31, 1991

A summary of the period-to-period changes in the "Condensed Consolidated Statements of Operations" for the six-month periods ended May 31, 1992 and May 31, 1991 is shown below:

	($000)			Percent of Net Sales	
	1992	1991	Inc. (Dec)	1992	1991
	(Unaudited)				
Net sales	49,545	56,557	(7,012)	100.0	100.0
Gross profit (loss)	3,082	41	3,041	6.2	0.1
Selling, general and administrative expenses	2,711	2,896	(185)	5.4	5.1
Interest income	209	317	(108)	0.4	0.5
Other income	1,625	450	1,175	3.3	0.8
Income (loss) before income tax provision (benefit), equity in operations of investee and extraordinary credit	2,205	(2,088)	4,293	4.5	(3.7)
Income tax provision (benefit)	882	(342)	1,224	(1.8)	0.6
Income (loss) before equity in operations of investee and extraordinary credit	1,323	(1,746)	3,069	2.7	(3.1)
Equity in operations of investee	(833)	-	(833)	(1.7)	-
Income (loss) before extraordinary credit	490	(1,746)	2,236	1.0	(3.1)
Extraordinary credit-utilization of net operating loss carryforwards	831	-	831	1.7	-
Net income (loss)	1,321	(1,746)	3,067	2.7	(3.1)

Net sales decreased 12% to $49,545,000 from $56,557,000 in the six-month period ended May 31, 1992 primarily as a result of a 14% reduction in shipments to 195,000 tons from 226,000 tons in the six-month period ended May 31, 1991. The decrease in shipment levels primarily reflected the absence of lower-priced foreign billet or rebar export shipments in the second quarter. The favorable impact of a 16% increase in domestic shipments was partially offset by a 3% decrease in average rebar selling prices in the six-month period ended May 31, 1992 to $253 per ton from $262 per ton in the six-month period ended May 31, 1991.

The gross profit in the six-month period ended May 31, 1992 increased to $3,082,000 from $41,000 in the six-month period ended May 31, 1991 primarily due to, higher domestic shipments, lower scrap prices, lower depreciation expenses and lower rolling mill conversion costs. Scrap prices in the six-month period ended May 31, 1992 declined to an average of $74 per ton from $85 per ton in the six-month period ending May 31, 1991.

Selling, general and administrative expenses decreased $185,000 in the six-month period ended May 31, 1992 to $2,711,000 from $2,896,000 in the six-month period ended May 31, 1991 primarily due to decreases in employment-related expenses and the Von Roll technical services and management consulting fees. Such expenses increased in relation to net sales from 5.1% in the six-month period ended May 31, 1991 to 5.4% in the six-month period ended May 31, 1992.

Interest income for the six-month period ended May 31, 1992 decreased $108,000 to $209,000 from $317,000 in the six-month period ended May 31, 1991 as a result of lower interest rates.

Other income for the period ended May 31, 1992 increased $1,175,000 to $1,625,000 from $450,000 in the six-month period ended May 31, 1991 primarily as a result of a gain from an insurance settlement related to a 1989 melt shop fire.

The increase in the Company's income tax provision reflects the recording of income in for the six-month period ended May 31, 1992 as compared to a recorded loss in the six-month period ended May 31, 1991.

An operating loss incurred by the Company's equity investee resulted in the recording of a loss of $833,000 in the six-month period ended May 31, 1992.

Liquidity and Capital Resources

As of May 31, 1992 the Company has cash and cash equivalents of $8,955,000. The Company maintains an $8,000,000 offering line of credit on an unsecured basis. At May 31, 1992 there were no borrowings against this line.

Net cash used in operating activities decreased $2,464,000 in the six-month period ended May 31, 1992 compared to the prior year six-month period primarily due to the Company a loss in the six-month period ended May 31, 1991.

Working capital increased $3,533,000 during the six-month period ended May 31, 1992 primarily due to an increase in the Company's cash flow from operating activities which more than offset capital expenditures.

Net cash used in investing activities increased $102,000 in the six-month period ended May 31, 1992 as compared to the [illegible] in repayment of short-term notes receivable. This was partially offset by a decrease in capital expenditures. Capital expenditures for the six-month period ended May 31, 1992 totalled $1,324,000. The Company is continuing to evaluate a major expansion and cost improvement program. No final determination has yet been made. Absent a final determination on this program $1,200,000 in capital spending is estimated for the next two quarters.

There was no cash used in financing activities in the six-month period ended May 31, 1992 due primarily to the omission of the Company's quarterly dividend, announced September 20, 1991.

The Company believes that operations will generate sufficient cash flow to fund day-to-day operations for the remainder of the year.

Environmental

The Company is subject to federal, state and local environmental laws and regulations concerning, among other matters, waste water effluent, air emissions, noise and furnace dust disposal.

The Company's mill is classified as generating hazardous waste because it produces certain types of dust containing lead and cadmium. The Company currently collects and disposes of such wastes through contracts with approved waste disposal firms and believes that it is in compliance with environmental regulations concerning the hazardous components of such dust.

In August 1991, the Company entered into an Administrative Consent Order with the New Jersey Department of Environmental Protection (DEP) in settlement of certain matters (see Notes to Consolidated Financial Statements contained in the Company's annual report on Form 10-K). The Administrative Consent Order provides that the Company will submit an application for a new pollution control permit covering the mill and will conduct certain regional modeling studies in support thereof to demonstrate the mill's impact on the region's air quality. Management believes that the cost of such study will not have a material adverse impact on the Company's financial condition. In the event the emissions from the mill comply with applicable Federal, state and local guidelines, no additional action will be required of the Company, and a new permit will be issued. In the event the mill's current pollution control equipment is found to be inadequate, the Company will have to submit proposed modifications to its existing pollution control system for approval by the DEP and will have to purchase and install such modifications. The Company believes, based on its ongoing testing of its emission levels that the regional modeling emissions, as proposed in the new permit application, will have no significant adverse impact on air quality and that no additional modifications to the mill will be required.

Total expenditures incurred by the Company in the six-months ended May 31, 1992 in relation to environmental matters was approximately $850,000.

Future Trends Commentary

As evidenced by the Company's improved second quarter domestic shipments, rebar demand has improved on a year-to-year basis. The release of public construction funds should begin to accelerate with increased budget availability as states begin their new fiscal years this summer. This, coupled with the spate of announced infrastructure spending initiatives should translate into continuing improvement in rebar demand in coming quarters and in 1993.

Part II - Other Information

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) None.

(b) No Reports on Form 8-K were filed during this period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEW JERSEY STEEL CORPORATION
Registrant

Dated: July 14, 1992

Robert J. Pasquarelli, President

Dated: July 14, 1992

Paul Roik, Vice President-Finance
and Treasurer (Principal
Financial and Accounting Officer)

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FORM 10-Q

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JUL [illegible] 1992

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

H
92-2228

For Quarter Ended May 31, 1992	Commission File Number 33-7057-NY

NTN CANADA, INC.
'xact name of registrant as specified in its charter)

W YORK	11-2805051
(St. other jurisdiction of inc ion or organization	(I.R.S. Employer Identification Number

5255 de Sorel Street Montreal, Quebec	H4P 1G8
(Address of principal executive Offices)	(Zip Code)

(514) 739-7898
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

The issuer has outstanding one class of common stock. As of the close of the period covered by this report, there were 3,402,400 common shares outstanding.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Index to Financial Statements

Consolidated Balance Sheets as at May 31, 1992 and August 31, 1991.

Consolidated Statements of Operations and Income for the nine month periods ended May 31, 1992 and 1991.

Consolidated Statements of Operations and Income for the three month periods ended May 31, 1992 and 1991.

Consolidated Statements of Cash Flows for the nine month periods ended May 31, 1992 and 1991.

The financial information for the nine month periods ended May 31, 1992 and 1991 and the three month periods ended May 31, 1992 and 1991 are unaudited, but in the opinion of management contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial information shown therein.

Reference is made to the Company's Form 10-K Annual Report for the fiscal year ended August 31, 1991 for additional Notes to Financial Statements.

NTN CANADA INC
Consolidated Balance Sheet
As of May 31, 1992
(Expressed in Canadian Dollars - Unaudited)

	May 31st 1992	August 31 1991
ASSETS:		
Current Assets:		
- Cash	44,384	261,599
- Accounts Receivable	541,211	468,177
- Notes Receivable	3,810	10,093
- Inventory	561,302	648,875
- Prepaid Expenses	39,765	54,772
- Short Term Investments	1,316,362	999,646
- Net Investment in Leases	31,284	38,477
Total Current Assets:	2,538,118	2,481,639
Long Term Assets:		
- Loans to Shareholders	65,153	-
- Long Term Investment	18,931	25,000
- Property & Equipment	84,049	101,152
- Net Investment in Leases	-	28,295
- License Fee	290,675	300,050
- Deferred Income Taxes	7,500	7,500
- Goodwill on Acquisition	241,839	255,759
Total Long Term Assets:	708,147	717,756
Total Assets:	3,246,265	3,199,395
LIABILITIES:		
Current Liabilities:		
- Bank Loan	1,000,000	1,101,141
- Accounts Payable & Accrued Liabilities	334,293	197,448
- Accrued Liabilities - Shareholder	4,534	77,906
- Commissions Payable - Trade	-	16,100
- Deferred Income	4,081	6,029
- Provision for Income Taxes	34,780	36,134
Total Liabilities:	1,377,688	1,434,758
SHAREHOLDER'S EQUITY:		
Share Capital:		
- Preferred Stock	11,523	11,523
- Common Stock	43,933	43,933
- Capital in Excess of Par Value	1,625,363	1,625,363
- Profit/(Loss) Prior Period(s)	135,588	83,818
- Earning - Current Year	52,170	-
Total Share Capital:	1,868,577	1,764,637
Total Liability & Share Capital:	3,246,265	3,199,395

NTN CANADA INC

Consolidated Statement of Operations and Income
Nine (9) Month Period Ended May 31 29, 1992 and May 31, 1991
(Expressed in Canadian Dollars - Unaudited)

	May 31st 1992	May 31st 1991
Total Revenues:	2,275,210	1,933,337
Direct Costs:	815,157	1,008,418
Gross Profits:	1,460,053	924,919
Selling, General & Administrative Expenses:	1,373,103	762,408
Income Before Income Taxes	86,950	162,511
Provision for Income Taxes	34,780	65,004
Net Income:	52,170	97,507
Earning Per Common Share:	Nil	Nil

NTN CANADA INC

Consolidated Statement of Operations and Income
Three (3) Month Period Ended May 31, 1992 and May 31, 1991
(Expressed in Canadian Dollars - Unaudited)

	May 31st 1992	May 31st 1991
Total Revenues:	832,668	892,669
Direct Costs:	192,397	382,017
Gross Profits:	640,271	510,652
Selling, General & Administrative Expenses:	616,231	417,353
Income Before Income Taxes	24,040	93,298
Provision for Income Taxes	9,616	37,319
Net Income:	14,424	55,979
Earning Per Common Share:	Nil	Nil

NTN CANADA INC

Consolidated Statement of Operations and Income
Three (3) Month Period Ended May 31, 1992 and May 31, 1991
(Expressed in Canadian Dollars - Unaudited)

	May 31st 1992	May 31st 1991
Total Revenues:	832,668	892,669
Direct Costs:	192,397	382,017
Gross Profits:	640,271	510,652
Selling, General & Administrative Expenses:	616,231	417,353
Income Before Income Taxes	24,040	93,298
Provision for Income Taxes	9,616	37,319
Net Income:	14,424	55,979
Earning Per Common Share:	Nil	Nil

NTN CANADA INC
Consolidated Statement of Cash Flows
For the Nine Month Period Ended May 31, 1992 and May 31, 1991
(Expressed in Canadian Dollars - Unaudited)

	May 31 1992	May 31 1991
Cash Flows From Operating Activities:		
- Cash Received From Customers	1,643,082	1,890,298
- Cash Paid to Suppliers, Employees & Directors	(1,535,125)	(1,789,928)
Net Cash Flows (Used for) Provided by Operating Activities	107,957	100,370
Cash Flows From Investment Activities:		
- Purchases of Equipment	-	(72,319)
- Net Investment in Leases	21,677	60,318
- License Fee		(15,625)
- Goodwill on Acquisition		215,699
Net Cash Flows (Used for) Provided by Investment Activities	21,677	(243,325)
Cash Flows From Financing Activities:		
- Long - Term Loan	-	5,318
- Common Shares	-	6,305
- Capital in Excess of Par Value	-	157,946
- Proceeds from Sale of Securities	71,008	
Net Cash Flows (Used for) Provided by Financing Activities	71,008	169,569
INCREASE/(DECREASE) IN CASH	200,642	26,614
Cash, Beginning of Year	160,104	274,823
Cash, End of Period	360,746	301,437

For the Purposes of this Statement, "Cash" Comprises:

- Cash	44,384	1,415,464
- Term Deposits	1,313,919	-
- Bank Demand Loans	(997,557)	(1,114,027)
	360,746	301,437

Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

The financial statements of the Company, as well as the information contained in this analysis, include the financial statements, and information concerning operations, with respect to its wholly owned subsidiary, Petrie Group Management, Inc. ("Petrie") which was acquired by the Company effective March 1, 1991, and Petrie's wholly owned subsidiary, NTN Creative Marketing, Inc. ("Creative").

The financial statements of the Company are expressed in Canadian Dollars. The information contained in this analysis is expressed in both Canadian and United States Dollars, the conversion ratio being US$ .83 to each Cn$1.00.

Results of Operations

During the nine months ended May 31, 1992, the Company's gross revenues increased Cn$341,873 (US$283,755) or 18% from the same period in 1991. The increase resulted in part from special corporate programs produced by Creative, as well as broadcast and maintenance services provided by the Company which are described below. Direct costs decreased Cn$193,261 (US$160,407), or 19% from the same period in 1991, reflecting the fact that revenues derived from the existing activities of Creative carry minimal, if any, direct costs. Gross profit increased Cn$535,134 (US$444,161), or 58% from the same period in 1991. Selling, general and administrative expenses increased Cn$610,695 (US$506,877), or 68% from the same period in 1991. There were significant increases in salaries, employee benefits and rent resulting in part from the acquisition of Petrie and Creative. In addition, the Company has allocated certain annual expenses to the quarterly periods. As a result, income before income taxes declined from Cn$162,511 (US$134,844) to Cn$86,950 (US$68,169), and net income declined slightly from Cn$97,507 (US$80,931) to Cn$52,170 (US$43,301), from the same period in 1991. Earnings per share were negligible for both periods.

During the three months ended May 31, 1992, the Company's gross revenue decreased by Cn$60,001 (US$49,801), or 7%, from the same period in 1991, resulting from the general overall slow down in the economy. Direct costs decreased Cn$189,620 (US$157,379), or 50% from the same period in 1991. The decrease was due in part to the reduction in direct costs from the activities of Creative.

Since direct costs decreased more than gross revenue, gross profit showed an increase of 25% from the same period in 1991, to Cn$640,271 (US$531,425). Selling, general and administrative expenses increased 48% from the same period in 1991, to Cn$616,231 (US$511,472), reflecting the increased overhead of the combined Company and, as discussed above, the allocation of certain annual expenses to the 1992 quarter. During the three months ended May 31, 1992, income before income taxes decreased from Cn$93,298 (US$77,437) to Cn$24,040 (US$19,953), and Net Income decreased from Cn$55,979 (US$46,463) to Cn$14,424 (US$11,972), compared to the same period in 1991.

The Company expects that the signing of agreements to provide services to new corporate clients will result in expanded operations and increased revenues for the period in which the services are provided. The services are not utilized by corporate clients on a continuous basis but may be renewed periodically. New services utilizing interactive training have been developed for use by corporate clients and are presently being utilized by Mutual Life of Canada, Ontario Hydro and Hills Pet Products. In the field of product knowledge, new services have been developed for Goodyear and Porsche Automobiles. There can be no assurance that new revenues will result from such services on an ongoing basis or that such services will result in positive changes to net income.

Liquidity and Capital Resources

Working capital as of May 31, 1992 amounted to Cn$1,160,430 (US$963,157), as compared to Cn$1,046,881 (US$868,911) as of August 31, 1991. The Company believes that its working capital position is sufficient for its current needs.

The Company is dependent upon the continued existence of NTN Communications, Inc. ("Communications") for broadcast services and maintenance operations. In June, 1991, Communications recapitalized its debt in the amount of approximately US$8,100,000 and raised new equity of approximately US$9,200,000. The Company has been advised that within the last twelve months, Communications' net worth has changed from a negative position to a positive position.

Inflation

The rate of inflation has had little impact on the Company's results of operations and is not expected to have a significant impact on continuing operations.

PART II - OTHER INFORMATION

NONE.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: July 14, 1992

By: ________________________

Peter Rona,
President and Principal
Financial Officer

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

PROCESSED BY
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JUN 5 1992

For the Quarterly Period Ended April 19, 1992

Commission file number 0-18629

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O'Charley's Inc.
(Exact name of registrant as specified in it [illegible]ter)

Tennessee
(State or other jurisdiction of incorporation or organization)

62-1192475
(I.R.S. Employer Identification No.)

3038 Sidco Drive, Nashville, Tennessee
(Address of principal executive offices)

37204
(Zip Code)

(615) 256-8500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Class	Outstanding as of May 29, 1992
Common Stock, no par value	4,073,050 shares

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Page 1 of 24 Sequentially Numbered Pages
Exhibit Index Appears at Sequentially Numbered Page 13

O'Charley's Inc.

Form 10-Q

For Quarter Ended April 19, 1992

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Page No.

Part I - Financial Information

Item 1. Financial statements:

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Statements of earnings for the sixteen weeks ended April 19, 1992 and April 21, 1991 4

Statements of cash flows for the sixteen weeks ended April 19, 1992 and April 21, 1991 5

Notes to unaudited financial statements 6

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Part I. Financial Information

Item 1. Financial Statements

O'Charley's Inc.
Balance Sheets

(in thousands)

	April 19, 1992 (unaudited)	December 29, 1991 (audited)
Assets		
Current Assets:		
Cash and cash equivalents	$78	$1,650
Accounts receivable	823	587
Due from related parties	1,057	684
Inventories	2,630	2,309
Preopening costs	568	716
Other current assets	628	235
Total current assets	5,784	6,181
Property and Equipment, net	29,245	27,111
Other Assets	961	662
	$35,990	$33,954
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$2,552	$1,118
Accrued payroll and related expenses	1,038	996
Accrued expenses	220	422
Federal, state and local taxes	750	864
Current portion of long-term debt and capitalized leases	930	973
Total current liabilities	5,490	4,373
Deferred Income Taxes	749	695
Long-Term Debt	784	805
Capitalized Lease Obligations	2,963	2,837
Shareholders' Equity:		
Common stock - No par value;authorized, 10,000,000 shares; issued and outstanding, 4,026,550 in 1992 and 3,951,350 in 1991	22,986	22,701
Retained earnings	3,018	2,543
	26,004	25,244
	$35,990	$33,954

See notes to financial statements.

O'Charley's Inc.
Statements of Earnings
Sixteen Weeks Ended April 19, 1992 and April 21, 1991

(unaudited)

	1992	1991
	(in thousands, except per share data)	
Revenues:		
Restaurant sales	$18,363	$14,009
Commissary sales	2,697	2,136
Franchise revenue	92	96
	21,152	16,241
Costs and Expenses:		
Cost of restaurant sales:		
Cost of food, beverage and supplies	6,832	5,189
Payroll and benefits	5,549	4,334
Restaurant operating costs	3,063	2,558
Cost of commissary sales	2,533	1,981
Advertising, general and administrative expenses	1,363	1,061
Depreciation and amortization	967	645
	20,307	15,768
Income from Operations	845	473
Other(Income)Expense:		
Interest expense	171	96
Interest income	(25)	(115)
Other, net	(52)	(56)
	94	(75)
Earnings Before Income Taxes	751	548
Income Taxes	276	201
Net Earnings	$475	$347
Earnings per Common Share	$0.11	$0.09
Weighted Average Common Shares Outstanding	4,392	4,031

See notes to financial statements.

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O'Charley's Inc.
Statements of Cash Flows
Sixteen Weeks Ended April 19, 1992 and April 21, 1991

(unaudited)

	1992	1991
	(in thousands)	
Cash Flows from Operating Activities:		
Net earnings	$475	$347
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization	671	483
Amortization of preopening costs	296	162
Increase in deferred income taxes	54	150
Changes in assets and liabilities, net of effects from purchase acquisitions:		
(Increase) decrease in accounts receivable	(236)	23
Increase in due from related parties	(373)	(144)
Increase in inventories	(321)	(317)
Additions to preopening costs	(149)	(208)
Increase in other current assets	(393)	(116)
Increase in accounts payable	1,434	68
Decrease in accrued payroll and expenses	(273)	(453)
Total adjustments	710	(352)
Net cash provided (used) by operating activities	1,185	(5)
Cash Flows from Investing Activities:		
Additions to property and equipment	(2,370)	(2,706)
Acquisition of franchisee	-	(269)
Other, net	(109)	(6)
Net cash used by investing activities	(2,479)	(2,981)
Cash Flows from Financing Activities:		
Payments on long-term debt and capitalized lease obligations	(369)	(257)
Exercise of employee incentive stock options	91	-
Net cash used by financing activities	(278)	(257)
Decrease in Cash and Cash Equivalents	(1,572)	(3,243)
Cash and Cash Equivalents at Beginning of the Period	1,650	7,016
Cash and Cash Equivalents at End of the Period	$78	$3,773

See notes to financial statements.

O'Charley's Inc.
Notes To Unaudited Financial Statements
Sixteen Weeks Ended April 19, 1992 and April 21, 1991

A. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and in accordance with Rule 10-01 of Regulation S-X.

In the opinion of management, the unaudited interim financial statements contained in this report reflect all adjustments, consisting of only normal recurring accruals which are necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

These financial statements, footnote disclosures and other information should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 29, 1991.

O'Charley's Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Sixteen Weeks Ended April 19, 1992 and April 21, 1991

Results of Operations

General. The Company's revenues are derived primarily from Company-owned restaurant sales and commissary sales. The Company also receives a small percentage of its revenues from franchise fees. Cost of restaurant sales relates directly to Company-owned restaurants, while commissary cost of sales relate to commissary sales to third parties, including the Company's franchisees. All other expenses relate to total revenue. The Company's revenues and expenses are affected by the number of new restaurants and the timing of their openings. The timing of restaurant openings can affect the average volume and other period-to-period comparisons. The first quarter of 1992 and 1991 cover a period of sixteen weeks ending April 19, 1992 and April 21, 1991, respectively.

The following table sets forth the percentage relationship to total revenues, unless otherwise indicated, of certain items included in the Company's statement of earnings.

	Sixteen Weeks Ended April 19, 1992	April 21, 1991
Revenues:		
Restuarant sales	86.8%	86.3%
Commissary sales	12.8%	13.1%
Franchise revenue	0.4%	0.6%
	100.0%	100.0%
Costs and Expenses:		
Cost of restaurant sales:		
Cost of food, beverage and supplies (1)	37.2%	37.0%
Payroll and benefits (1)	33.2%	30.9%
Restaurant operating costs (1)	16.7%	18.3%
Cost of commissary sales (2)	93.9%	92.7%
Advertising, general and administrative expenses	6.4%	6.5%
Depreciation and amortization	4.6%	4.0%
Other(Income)Expense:		
Interest expense	0.2%	0.6%
Interest income	-0.1%	-0.7%
Other, net	-0.2%	-0.3%
Earnings Before Income Taxes	3.6%	3.4%
Net Earnings	2.2%	2.1%

(1) As a percentage of restaurant sales.
(2) As a percentage of commissary sales.

Total revenues for the first quarter 1992 were $21,152,000, an increase of $4,911,000 or 30.2% over the same period in 1991. Company-owned restaurant sales increased 31.1% in the first quarter of 1992 over 1991, and accounted for 88.7% of the increase in total revenues. Franchise revenues decreased slightly; there were no new franchised stores opened during the quarter.

The number of Company owned restaurants increased to 29 from 23 at April 21, 1991. The Company opened one new restaurant during the first quarter of 1992. Same restaurant sales (sales for restaurants opened throughout both periods under comparison) increased 5.6% for the first quarter of 1992 from the comparable period in 1991. The same restaurant sales increase is comprised of a 17% increase in customer counts offset by a 11.4% decrease in the Company's overall check average. Management attributes the increase in customer counts to continued improvements in restaurant operations and marketing programs designed to build customer traffic which were instituted during the second quarter of 1991. Additionally, the Company did experience somewhat lower customer traffic during the first quarter of 1991 due to the Persian Gulf War and the weakened economic conditions. The Company's overall check averages decreased for the fifth consecutive quarter as a result of a lower priced "express" lunch menu, "Kids Eat Free" program and the lower priced "jacket" dinner menu introduced during the second quarter of 1991 and fully implemented during the first quarter of 1992.

Commissary sales for first quarter 1992 increased 26.3% over the same period of 1991, which comprised 11.4% of the total increase in revenues for the quarter. This increase is primarily attributable to sales of food and supplies to a restaurant owned by the Company's President and sales of O'Charley's "pint jar" salad dressings and dips to various grocery stores in Alabama, Georgia, Tennessee and Kentucky. These sales did not exist in the first quarter of 1991.

Cost of restaurant sales (including cost of food, beverage and supplies, payroll and benefits and restaurant operating costs) as a percentage of restaurant sales decreased to 84.1% in first quarter 1992 from 86.2% for the same period in 1991. The Company's commissary purchases and distributes a major portion of food and supplies used in the Company's restaurants. Cost of food, beverage and supplies increased slightly as a percentage of restaurant sales and is attributable to higher food cost as a result of the Company's promotion of a lower priced dinner menu and somewhat higher produce cost.

Payroll and benefits as a percentage of restaurant sales decreased to 30.2% for the first quarter of 1992 from 30.9% for the same period in 1991. While overall employee benefit cost and bonus compensation continue to increase, the improvement in same restaurant sales and gains in overall restaurant sales volumes more than offset the increases in benefit and labor cost as a percentage of restaurant sales.

Restaurant operating costs, which consist primarily of repair, maintenance, utilities, outside services, rent, insurance and supervisory cost, decreased to 16.7% as a percentage of restaurant sales in the first quarter of 1992 from 18.3% in 1991 because certain fixed operating costs did not increase in proportion to the increase in same store sales and overall restaurant sales volumes. Rent expense as a percentage of restaurant sales decreased due to the Company's ownership of the land and buildings of the last six restaurants opened while previously the Company had leased the majority of its restaurants.

Cost of commissary sales as a percentage of commissary sales increased in the first quarter of 1992 to 93.9% from 92.7% for the first quarter of 1991 due to a decrease in product cost offset by increases in labor and overhead expense. Food cost decreased due to the increased buying power of the commissary. Labor cost and overhead expenses including maintenance and utility costs increased due to the expansion of the commissary's warehouse and production facilities. The expanded facility was required to meet distribution and production demands for increased sales to Company owned restaurants and third party sales. Additionally, overhead expense increased due to higher truck and fuel expense as a result of more frequent deliveries per week to each Company owned store.

Advertising, general and administrative expenses decreased slightly as a percentage of total revenue in the first quarter of 1992 to 6.4% from 6.5% in 1991. While advertising and marketing expenses increased as a percentage of sales, general and administrative expenses did not increase in proportion with the increase in total revenues thus lowering the percentage cost.

Depreciation and amortization increased as a percentage of total revenue in the first quarter of 1992 to 4.6% from 4.0% in the first quarter of 1991. This increase is attributable to a large increase in restaurant preopening amortization as a result of increases in preopening cost incurred in new geographical markets.

Interest expense increased to $171,000 in the first quarter of 1992 from $96,000 for the same period in 1991. This increase is attributable to increased borrowings to finance furniture, fixtures and equipment for Company restaurants opened since the first quarter of 1991.

Interest income decreased in the first quarter of 1992 as compared to the same period in 1991 as a result of the decrease in the amount of invested cash funds.

Liquidity and Capital Resources

The Company's working capital ratio was 1.1 to 1 at April 19, 1992 compared with 1.4 to 1 at December 29, 1991. This decrease in working capital is primarily attributable to the use of funds for capital expenditures.

The Company currently anticipates opening a total of five Company-owned restaurants in 1992. During the first quarter of 1992, the Company had capital expenditures for construction of new restaurants in Jackson, Tennessee, which opened March 23, 1992, and Florence, Kentucky which is expected to open in June 1992. The Company also had capital improvements for existing restaurants and the Company's commissary and corporate office facilities. Total capital expenditures for the first quarter of 1992 were approximately $2,800,000. The Company expects to spend approximately $5,100,000 during the remainder of 1992 to acquire and construct additional restaurant facilities and for improvements to existing facilities. The Company has no material long-term capital commitments.

The Company believes that available cash, cash generated from operations and available credit facilities will be sufficient to finance its operations and anticipated growth through the end of the 1992 fiscal year.

The Company has three lines of credit facilities totaling $8 million which bear interest at the variable rates of 1/2% to 1% over the bank's prime lending rate. The revolving credit facilities require the Company to maintain certain levels of net worth and to comply with certain other financial covenants. During the quarter ended April 19, 1992, there were no borrowings on these lines of credit and the Company was in compliance with financial and loan covenants contained in the revolving credit agreements.

On June 1, 1992, the Company entered into a letter of intent to establish a partnership to acquire an existing Logan's Roadhouse restaurant from the Company's President and to develop up to five additional Logan's Roadhouse restaurants over a five year period. The Company will own 20% of the partnership and a group of investors, including the Company's President and Chief Operating Officer, will own 80% The Company has committed to provide financing for the land, buildings and for leasehold improvements for the first five restaurants, and to assist the partnership in obtaining financing for certain furniture, fixtures, equipment and preopening costs for such restaurants for a fee. The Company has the option following the development of five Logan's Roadhouse restaurants to acquire the remaining 80% of the partnership at 75% of its fair market value at the time of exercise. Management expects that the total five year capital commitment will not exceed $3,750,000, and will not materially affect the Company's ability to develop O'Charley's restaurants.

Part II - Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(10) Letter of Intent dated June 1, 1992 between O'Charley's, Inc. and Logan's Management, Inc.

(11) Computation of Earnings per Common Share.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the sixteen weeks ended April 19, 1992.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

O'Charley's Inc.
(Registrant)

Date: June 2, 1992

By: David K Wachtel
David K. Wachtel, Jr.
President and Chief
Executive Officer

Date: June 2, 1992

By: Greg L. Burns
Gregory L. Burns
Executive Vice President
Secretary and Chief
Financial Officer

Exhibit Index

Exhibit No.	Description	Sequentially Numbered Page
10.	Letter of Intent between O'Charley's Inc. and Logan's Management, Inc.	14
11.	Computation of Earnings per Common Share	23

Exhibit 10

O'Charley's Inc.
3038 Sidco Drive
Nashville, Tennessee 37204

June 1, 1992

Gentlemen:

This letter sets forth the intentions of O'Charley's Inc. ("O'Charley's") and Logan's Management Group, Inc., a Tennessee corporation (the "Management Group"), regarding the formation of Logan's as a Tennessee general partnership ("Logan's") for the purpose of acquiring an existing Logan's Roadhouse restaurant located in Lexington, Kentucky and developing additional Logan's Roadhouse restaurants. The terms of the proposed transaction include the following:

Capital Structure. Logan's shall be formed as a general partnership. The parties hereto shall have the respective partnership interest in Logan's as set forth on Exhibit A hereto. In addition, the parties shall enter into a definitive Partnership Agreement (the "Agreement") which will contain terms customary to a transaction of this type in addition to the terms and conditions hereinafter set forth.

Management Committee. The business and affairs of Logan's shall be administered by a Management Committee consisting of five members, two members to be designated by each of O'Charley's and the Management Group and one member to be selected by the designees of O'Charley's and the Management Group.

Transfer of Logan's Concept. The Management Group hereby represents that it owns all right, title and interest in and to the trademark "Logan's Roadhouse" and all proprietary information necessary for the development of Logan's Roadhouse restaurants. The Management Group shall contemporaneously with the execution of the Agreement assign all of such right, title and interest to Logan's. The Management Group agrees to indemnify and hold harmless Logan's and O'Charley's against any claims by third parties relating to the ownership of such trademark and proprietary information.

Acquisition of Logan's of Lexington. As soon as practicable following its formation, Logan's shall enter into an asset purchase agreement with Bluegrass Steaks, Inc. ("Bluegrass Steaks") to acquire certain assets and assume certain liabilities of Bluegrass

Steaks related exclusively to the Logan's Roadhouse restaurant located in Lexington, Kentucky. Such assets and assumed liabilities are described on Exhibit B hereto. Wachtel, as controlling shareholder of Bluegrass Steaks, hereby represents that Bluegrass Steaks has full power and authority to transfer such assets to Logan's. Logan's shall agree to indemnify and hold harmless Wachtel from and against, and agree to reimburse O'Charley's and Wachtel on demand for, any claim, suit, loss, damage, cost and expense (including reasonable attorney's fees and disbursements) arising out of all assumed liabilities. Logan's shall sublease from Bluegrass Steaks the existing building located at 1224 Harrodsburg Road, Lexington, Kentucky. The rental will be the greater of $148,000 per annum or 6% of sales. O'Charley's agrees to guaranty the payment obligations of Logan's pursuant to the sublease. The asset purchase agreement shall contain representations, warranties and covenants customary for a transaction of this type. Wachtel shall agree to indemnify and hold harmless O'Charley's and Logan's from and against, and agree to reimburse O'Charley's and Logan's on demand for, any claim, suit, loss, damage, cost and expense (including reasonable attorney's fees and disbursements) arising out of any liabilities of Bluegrass Steaks not assumed by Logan's or a breach of any of the representations, warranties and covenants made by Bluegrass Steaks in the asset purchase agreement.

Development. Subject to the conditions hereinafter set forth, O'Charley's agrees to provide and/or to arrange credit for the opening of up to two new Logan's restaurants during the first 24 months following the date of the definitive Agreement, 2 new Logan's restaurants during the following 24 months and 1 new Logan's restaurant during the following 12 months. Such credit shall be provided only for land, building and/or initial leasehold improvements; provided, however, O'Charley's shall also provide and/or arrange credit for furniture, fixtures and equipment and usual and customary pre-opening costs for such five restaurants in the event Logan's is unable after utilizing its best efforts to arrange for such credit with a third party lender. O'Charley's shall lease the land, building and/or leasehold improvements to Logan's for such restaurants. The terms shall be 15 years with two 5 year options in favor of Logan's. The annual rental shall be the greater of 3% over the 30 year bond rate times the cost of the project or 6% of the first 2 million in sales, 5% of the 2nd million in sales, and 4% of all sales thereafter. In the event of a lease or ground lease, the cost of the lease will be directly passed through to Logan's. Other financing, if provided, guaranteed or secured by assets of O'Charley's, shall be on terms, including payment schedule, security, covenants and events of default, equivalent to any financing which would be provided to

Logan's by unaffiliated third party lenders; provided, that (a) if directly financed by O'Charley's, the interest rate shall be equal to the interest rate paid by O'Charley's for borrowed funds plus 5% per annum and (b) if guaranteed by O'Charley's, O'Charley's shall receive a fee payable monthly equal to 2% per annum of the principal amount outstanding of such guaranteed indebtedness. All such financing shall be secured to O'Charley's by a first lien on the interest of the Management Group in Logan's. The obligation to provide credit hereunder is conditioned upon the Management Committee of Logan's approving and recommending to the Board of Directors of O'Charley's each new proposed restaurant, including a budget with respect thereto.

Contribution. The Management Group and O'Charley's shall contribute to any operating working capital shortfall of Logan's based on their respective pro rata ownership at the time of any such contribution. In the event either O'Charley's or the Management Group shall fail to so contribute, it shall suffer a proportionate reduction in its interest in Logan's. Logan's shall not extend payment of trade and accounts payable beyond reasonable and acceptable good business practice or otherwise take any action not in the best interest of Logan's in an effort to avoid any working capital shortfalls.

O'Charley's Option. For twenty-four (24) months following the earlier to occur of (i) fifteen (15) months following the opening of five new Logan's restaurants or (ii) five years from the date of the definitive Agreement, O'Charley's shall have the option (the "O'Charley's Option") to purchase the interest of the Management Group in Logan's. During the first twelve (12) months of the option period, the Management Group may not transfer or enter into any agreement to transfer its interest in Logan's. The option price for the Management Group shall equal the Management Group's pro rata share of the value of Logan's using its percentage interest at the time of exercise of the O'Charley's Option. The value of Logan's shall be calculated as of the date of exercise of the O'Charley's Option and shall equal 75% of the fair value of Logan's as determined by an investment banker mutually agreeable to O'Charley's and the Management Group. In the event O'Charley's and the Management Group are unable to agree upon an investment banker, each will select an investment banker to calculate the value of Logan's. In the event the investment bankers calculate a fair value for Logan's which differs by less than 10%, the fair value shall be the average of such calculations. If such calculations differ by more than 10%, the two investment bankers shall choose a third investment banker to calculate the fair value of Logan's. Such calculation shall be within the range calculated by the investment bankers selected by O'Charley's and the Management

Group. Each party shall be responsible for the fee of the investment banker selected by it. The parties will each pay one-half of the fee of any third investment banker. Such procedure for determination of the fair value of Logan's shall be final as to all parties. Upon exercise of the O'Charley's Option, O'Charley's may pay the option price in cash, shares of O'Charley's common stock or a combination thereof, in its discretion.

In the event O'Charley's has not fulfilled its obligations set forth under "Development," the O'Charley's Option shall terminate.

__Right of First Refusal__. In the event O'Charley's or the Management Group shall receive a bona fide offer for any part or all of their interest in Logan's, the other party shall have a right to purchase such interest at the price and on the terms contained in such offer; __provided__, __however__, that in the event O'Charley's shall exercise its right of first refusal during the second twelve (12) months of the O'Charley's Option period, it shall be entitled to purchase the interest of the Management Group at the lesser of the price contained in the bona fide offer or the price calculated pursuant to the formula used to determine the exercise price of the O'Charley's Option. In the event O'Charley's shall exercise its right of first refusal, it may substitute shares of its common stock in lieu of all or any portion of the consideration set forth in any bona fide offer at the market value thereof. In the event the Management Group shall exercise its right of first refusal, it shall cause O'Charley's to be released from liability, whether direct or indirect, for any and all indebtedness of Logan's or provide a letter of credit or other suitable security to secure the indebtedness. In addition, the Management Group shall cause O'Charley's to be repaid for any and all indebtedness of Logan's to O'Charley's.

__Management Group Option__. In the event O'Charley's shall not satisfy its obligations set forth under "Development," the Management Group shall have the option (the "Management Group Option"), for a period of 180 days following notice to O'Charley's of such failure to satisfy, to purchase the interest of O'Charley's in Logan's. The option price for purposes of this paragraph shall be calculated on the same basis as for the O'Charley's Option. As a condition to the exercise of the Management Group Option, the Management Group shall cause O'Charley's to be released from liability, whether direct or indirect, for any and all indebtedness of Logan's or provide a letter of credit or other suitable security to secure the indebtedness. In addition, the Management Group shall cause O'Charley's to be repaid for any and all indebtedness of Logan's to O'Charley's.

__Registration Rights__. In the event O'Charley's shall deliver shares of its common stock in payment of the O'Charley's Option price or pursuant to its right of first refusal, such shares of common stock shall be valued at the average closing sales price of such shares on the NASDAQ National Market System for the four calendar weeks immediately preceding the date of any such closing. In such event, the Management Group shall be granted one demand registration right and one piggyback registration right with respect to such shares of common stock, subject to such terms, conditions and restrictions as are customary in transactions of this type.

__Wachtel Employment Agreement__. Effective on the date of the definitive Agreement, the Employment Agreement between O'Charley's and David K. Wachtel dated April 15, 1988, as amended, shall be amended to provide that in the event of termination or expiration of the O'Charley's Option or if O'Charley's shall dispose of its interest in Logan's, Wachtel shall inform O'Charley's within six months of such event as to whether he desires to continue to serve as an officer of O'Charley's. In the event Wachtel desires to remain in such role, he will have up to 24 months from the date of termination or expiration of the O'Charley's Option to divest his interest in Logan's to an unaffiliated party in a bona fide arm's length transaction. In the event Wachtel does not divest all such interest within such time period, O'Charley's shall have the right to terminate Wachtel and such termination shall be deemed a termination "for cause" for purposes of his employment agreement; provided, however, that in the event of such termination Wachtel shall be entitled to retain all stock options then exercisable. Such employment agreement shall further provide that while employed by O'Charley's Wachtel shall not engage, whether directly, indirectly or as a nominee, in any business venture without the prior approval of O'Charley's Board of Directors. Failure to obtain such approval shall constitute cause for termination and such termination shall be deemed a termination "for cause" for purposes of his employment agreement.

__Obligations of Toole and Moats__. Each of David Toole and Ted Moats shall be responsible for the oversight of the day to day operations of the Logan's restaurants. Each of Toole and Moats shall devote substantially all of their efforts to the conduct of the operations of Logan's for the greatest advantage of Logan's and its investors. While employed by Logan's neither Moats nor Toole shall engage, whether directly, indirectly or as a nominee, in any business venture without the prior approval of Logan's Management Committee.

Covenants. Logan's shall not, without the approval of the members of the Management Committee, (i) incur any indebtedness, (ii) make any capital expenditures in excess of $50,000, (iii) incur any lien or other encumbrance upon or with respect to any property or assets of Logan's, or (iv) make any loans to, guarantees in favor of or investments in affiliated entities. Logan's shall not, without the unanimous approval of the partners (i) acquire the assets or stock of any entity or sell, lease, transfer or dispose of any portion of its assets, or (ii) issue any additional partnership interests or admit any new partners. In addition to the foregoing, Logan's shall cause to be prepared and delivered to O'Charley's monthly, quarterly and audited annual financial statements. Unaudited monthly and quarterly financial statements shall be delivered within 45 days after the close of each month or quarter, respectively; audited annual financial statements shall be delivered no later than 90 days following the end of each fiscal year.

Expenses. Logan's will bear its own legal and other expenses with respect to this transaction and will reimburse O'Charley's for one-half of its legal and other out-of-pocket expenses incurred by it in connection with the preparation of this letter of intent and formation of Logan's. In the event of exercise of the O'Charley's Option or the Management Group Option and the parties are able to agree on one investment banker, the fee of such investment banker shall be borne by the party exercising its option.

Distributions. All parties agree that a distribution shall be made pro rata to O'Charley's and the Management Group annually upon approval of the Management Committee based on a determination that any such distribution will not impair the capital of Logan's. If practicable, such distribution should be made on or before April 15 of each such year. Such distribution should be no less than the maximum tax liability incurred by any partner with respect to income earned on its investment in Logan's.

Non-Binding Agreement. This letter is not intended to constitute a binding agreement to consummate the matters set forth herein. The obligation of the parties to consummate such matters are conditioned upon, among other things, due diligence investigation conducted by representatives of O'Charley's regarding the Logan's Roadhouse to be acquired by Logan's not resulting in information which is materially adverse and execution and delivery of a definitive Agreement.

If you are in agreement that the foregoing correctly expresses our mutual intent, please execute this letter and return it to the undersigned.

Very truly yours,

O'Charley's Inc.

By: ____________________
Title: ____________________

Agreed to this 1st day of
June, 1991.

Logan's Management Group, Inc.

By: ____________________
Title: President

EXHIBIT A

Ownership Interest

Logan's Management Group, Inc.	
David K. Wachtel	40%
David Toole	10
Charles F. McWhorter	20
Edwin W. Moats	10
Total	80%
O'Charley's Inc.	20%

Exhibit 11

Exhibit 11

O'Charley's Inc.

Computation of Earnings Per Common Share

Sixteen Weeks Ended April 19, 1992 and April 21, 1991

(unaudited)

	1992	1991
	(in thousands, except per share data)	
Primary		
Net earnings as reported	$475	$347
Adjustments:		
Interest savings, net of tax	-	6
Net earnings as adjusted	$475	$353
Weighted average shares outstanding	4,392	4,031
Primary earnings per share	$0.11	0.09
Fully Diluted		
Net earnings as reported	$475	$347
Adjustments:		
Interest savings, net of tax	-	-
Net earnings as adjusted	$475	$347
Weighted average shares outstanding	4,392	4,031
Fully diluted earnings per share	$0.11	$0.09

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 1992

JUL 1 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 33-31006

PDK LABS INC.
(Exact name of registrant as specified in its charter)

New York	11-2626013
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

145 Ricefield Lane
Hauppauge, New York
(Address of principal executive offices)

11779
(Zip Code)

(516) 273-2630
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO ______

Class	Outstanding at June 29, 1992
Common Stock	8,707,059

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PDK LABS INC.

FORM 10-Q

QUARTERLY REPORT
for the Six Months ended May 31, 1992

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PDK LABS INC.

BALANCE SHEETS

	May 31, 1992 (unaudited)	November 30, 1991
ASSETS		
CURRENT ASSETS:		
Cash	$11,772,558	$ 3,135,423
Accounts receivable - less allowance for doubtful accounts of $30,000	1,603,235	1,642,430
Inventories	3,801,955	2,252,297
Prepaid expenses and other current assets	649,118	472,591
Total current assets	17,826,866	7,502,741
PROPERTY, PLANT AND EQUIPMENT, net	2,223,700	1,815,916
INTANGIBLES ASSETS, net	1,845,229	1,439,913
OTHER ASSETS	375,926	422,433
	$22,271,721	$11,181,003
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note payable - bank	$ -	$ 500,000
Accounts payable	607,356	710,625
Accrued expenses	472,418	34,724
Income taxes payable	58,883	301,450
Current portion of long-term debt	283,564	307,916
Total current liabilities	1,422,221	1,854,715
LONG-TERM DEBT	1,669,792	797,623
DEFERRED INCOME TAXES	411,000	243,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; authorized 10,000,000 shares; 8,707,059 and 7,157,059, respectively, issued and outstanding	87,071	71,571
Preferred stock, $.01 par value; authorized 5,000,000 shares; 1,600,000 and zero, respectively, issued and outstanding	16,000	-
Additional paid-in capital	18,311,312	6,823,865
Unearned compensation	(2,055,753)	(951,330)
Retained earnings	2,410,078	2,341,559
	18,768,708	8,285,665
	$22,271,721	$11,181,003

See notes to financial statements

PDK LABS INC.

STATEMENTS OF OPERATIONS

	Six Months Ended May 31, 1992 (unaudited)	Six Months Ended May 31, 1991 (unaudited)	Three Months Ended May 31, 1992 (unaudited)	Three Months Ended May 31, 1991 (unaudited)
NET SALES	$4,917,377	$3,773,785	$2,613,519	$1,996,147
COSTS AND EXPENSES:				
Cost of sales	2,254,361	1,492,977	1,234,520	740,010
Catalog printing, postage and promotion	281,712	328,746	153,862	192,643
Selling, general and administrative	1,694,303	1,414,865	868,881	781,571
	4,230,376	3,236,588	2,257,263	1,714,224
OPERATING INCOME	687,001	537,197	356,256	281,923
OTHER EXPENSES (INCOME):				
Interest income	(72,926)	(77,155)	(58,047)	(50,211)
Interest expense	68,190	87,291	34,549	39,015
Non-recurring employee compensation	441,300	-	441,300	-
	436,564	10,136	417,802	(11,196)
EARNINGS (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	250,437	527,061	(61,546)	293,119
PROVISION (BENEFIT) FOR INCOME TAXES	96,000	220,000	(24,000)	143,000
NET EARNINGS (LOSS)	$ 154,437	$ 307,061	$ (37,546)	$ 150,119
EARNINGS (LOSS) PER SHARE	$.01	$.05	$(.01)	$.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	7,840,529	5,938,000	8,253,526	6,617,444

See notes to financial statements

PDK LABS INC.

STATEMENTS OF CASH FLOWS

	Six Months Ended	
	May 31, 1992 (unaudited)	May 31, 1991 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 154,437	$ 307,061
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	719,398	510,058
Non-cash compensation	441,300	-
Deferred income taxes	211,000	170,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	39,195	11,959
Inventories	(1,549,658)	(58,650)
Prepaid expenses and other current assets	(200,053)	(25,056)
Other assets	46,507	69,367
Increase (decrease) in liabilities:		
Accounts payable	(103,269)	272,697
Accrued expenses	(34,724)	(79,261)
Income taxes payable	(285,567)	(160,598)
Total adjustments	(715,871)	403,455
Net cash (used in) provided by operating activities	(561,434)	710,516
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of plant, property and equipment	(633,834)	(91,801)
Acquisition of intangible assets	(70,387)	(233,985)
Net cash (used in) investing activities	(704,221)	(325,786)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in stockholder loan	23,526	32,190
Repayment of debt	(152,182)	(554,378)
Proceeds of debt	500,000	-
Proceeds of stock offering	9,468,946	-
Proceeds of warrant exercise	62,500	1,972,764
Net cash (used in) provided by financing activities	9,902,790	1,450,576
Net increase (decrease) in cash and cash equivalents	8,637,135	1,835,306
Cash and cash equivalents at beginning of period	3,135,423	1,382,373
Cash and cash equivalents at end of period	$11,772,558	$3,217,679

See notes to financial statements

PDK LABS INC.

NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED MAY 31, 1992

1. Basis of Presentation:

The interim financial statements furnished reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the financial position and results of operations for the six and three month periods ended May 31, 1992 and 1991. The financial statements should be read in conjunction with the summary of significant accounting policies and notes to financial statements included in the Company's Form 10-k for the fiscal year ended November 30, 1991. The results of operations for the six and three month periods ended May 31, 1992 and 1991 are not necessarily indicative of the results to be expected for the full year.

2. Inventories:

Inventories at May 31, 1992 have been estimated using the gross profit method.

Inventories at November 30, 1991 consisted of the following:

Raw materials	$ 787,449
Work-in-process	531,009
Finished goods	933,839
	$2,252,297

3. Stockholders' Equity:

a. Secondary public offering

In April 1992, the Company successfully completed a secondary public offering of 1,600,000 units at $7.00 per unit for gross proceeds of $11,200,000. Each unit consists of one share of preferred stock, one Class B warrant and one Class C warrant. Each share of preferred stock may be converted by its holder into three shares of common stock commencing October 14, 1993 and entitles the holder to annual cumulative dividends of 7% per share, payable in cash for one year after issuance and thereafter in cash or common stock at the sole discretion of the Company. Each Class B and C warrant entitles the holder to purchase one share of the Company's common stock at $3.25 and $4.25 per share, respectively, subject to adjustment upon the happening of certain events.

1. Basis of Presentation: (Cont'd)

b. Common stock

(i) The Company issued 500,000 shares of common stock in connection with a five-year employment agreement entered into on December 1, 1991 with the Company's president, chief executive and chief financial officer. The value of these shares has been included in unearned compensation at May 31, 1992.

As of January 1, 1992, the Company issued 100,000 shares of common stock to a law firm in consideration of services provided in connection with the second stock offering. The value of these shares has been charged against paid-in capital.

These shares have been valued at $1.25 per share.

(ii) On March 6, 1992, the Company issued 200,000 shares of stock to an officer in connection with a two-year extension of his employment agreement. The value of these shares has been included in unearned compensation at May 31, 1992.

On March 11, 1992, the Company issued 125,000 shares of stock to a company in connection with a two-year consulting agreement. The value of these shares has been included in unearned compensation at May 31, 1992.

On March 12, 1992, the Company issued 375,000 shares of stock to a Company in connection with the acquisition of a customer list. The value of these shares has been included in intangible assets at May 31, 1992.

The shares issued during March 1992 have been valued at $1.50 per share.

(iii) Under the terms of an employment agreement, the Company issued to an officer options to acquire 250,000 shares at $.25 per share for services provided. The officer exercised the options in March 1992. The value of the options was computed at the difference between the market value of the stock and the option exercise price plus the Company's liability to reimburse the officer for the tax consequences of the issuance, and have been charged to operations.

c. Earnings per share

Earnings per common share were computed by dividing net earnings less dividends on preferred shares by the weighted average number of shares of common stock outstanding during the period. The effect of common stock equivalents on the computation of earnings per share is not material. Shares held in escrow have been excluded from the weighted average number of shares.

4. Note Payable - Bank:

On February 25, 1992, the Company entered into a secured $1,500,000 Revolving Credit Agreement with a bank which bears interest at the rate 3/4% above the prime rate. The Revolving Credit Agreement terminates on November 30, 1994. Upon the execution of the Revolving Credit Agreement, the Company transferred its $500,000 demand note to the Revolving Credit Agreement.

PDK LABS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Six Months Ended May 31, 1992 Compared to May 31, 1991

Net sales for the six months ended May 31, 1992 were $4,917,377, representing a 30% increase over net sales for the corresponding period in 1991. The increase is attributable to an increase in the Company's wholesale customer base caused by the purchase of customer lists during the year ended November 30, 1991.

Catalog printing, postage and promotion costs were $281,712 and $328,746 for the six months ended May 31, 1992 and 1991, respectively. The 14% decrease reflects a more efficient utilization of the Company's mailing lists.

Selling, general and administrative expenses were $1,694,303 and $1,414,865 for the six months ended May 31, 1992 and 1991, respectively. The 20% increase is attributable to the greater amortization of customer lists, unearned compensation, and other intangible costs and an overall increase in administrative costs related to the growth of the Company.

Interest income decreased from $77,155 for the six months ended May 31, 1991 to $72,926 for the six months ended May 31, 1992. The decrease is principally attributable to lower interest rates. Interest expense decreased over the same periods from $87,291 to $68,190. The 22% decrease reflects lower debt levels and lower interest rates.

The results of operations for the six months ended May 31, 1992 include a $441,300 charge for non-recurring employee compensation, related to the issuance of stock options to an employee.

Three Months Ended May 31, 1992 Compared to May 31, 1991

Net sales for the three months ended May 31, 1992 were $2,613,519, representing a 31% increase over net sales for the corresponding period in 1991. The increase is attributable to an increase in the Company's wholesale customer base caused by the purchase of customer lists during the year ended November 31, 1991.

Catalog printing, postage and promotion costs were $153,862 and $192,647 for the three months ended May 31, 1992 and 1991, respectively. The 20% decrease reflects a more efficient utilization of the Company's mailing lists.

RESULTS OF OPERATIONS (Cont'd)

Three Months Ended May 31, 1992 Compared to May 31, 1991 (Cont'd)

Selling, general and administrative expenses were $868,881 and $781,571 for the three months ended May 31, 1992 and 1991, respectively. The 11% increase is attributable to the greater amortization of customer lists, unearned compensation and other intangible costs and an overall increase in administrative costs related to the growth of the Company.

Interest income increased from $50,211 for the six months ended May 31, 1991 to $58,047 for the six months ended May 31, 1992. The increase is principally attributable to a higher level of invested funds resulting from the proceeds of the secondary public offering. Interest expense decreased over the same periods from $39,015 to $34,549. The 11% decrease reflects lower debt levels and lower interest rates.

The results of operations for the three months ended May 31, 1992 includes a $441,300 charge for non-recurring employee compensation, related to the issuance of stock options to an employee.

LIQUIDITY AND CAPITAL RESOURCES

May 31, 1992 Compared to November 30, 1991

The Company's cash balance increased from $3,135,423 at November 30, 1991 to $11,772,558 at May 31, 1992. Working capital increased by $10,756,619 during the same period. The increases are primarily a result to the Company's April 1992 completion of a secondary public offering of 1,600,000 units at $7.00 per unit, for net proceeds of approximately $9,500,000. Each unit consists of one share of preferred stock, one Class B warrant, and one Class C warrant. Each share of preferred stock may be converted by its holder into three shares of common stock commencing October 14, 1993 and entitles the holder to annual cumulative dividends of 7% per share, payable in cash for one year after issuance and thereafter, in cash or common stock at the sole discretion of the Company.

The Company expects to meet its cash requirements from operations, current cash reserves, and its existing financing arrangements. The Company intends to use the proceeds of the offering for acquisitional, marketing and working capital purposes.

PART II - OTHER INFORMATION

Item 1. - Legal Proceedings

Reference is made to Item 3 in the Company's Form 10-K for the year ended November 30, 1991. There has been no significant change in the legal proceedings discussed.

Item 2. - Change in Securities

Not applicable; but see Item 5 below.

Item 3. - Defaults Upon Senior Securities

Not applicable.

Item 4. - Submission of Matter to a Vote of Security Holders

At a meeting of shareholders held on April 13, 1991, the majority of the shareholders voted to amend the Company's certificate of incorporation to (i) increase the number of authorized shares of common stock form 10,000,000 to 30,000,000 and (ii) to authorize 5,000,000 shares of preferred stock, the right and preferences of which can be established by the Board of Directors of the Company in one or more series from time to time without any further action or vote on the part of the shareholders of the Company.

Item 5 - Other Information

On April 22, 1992, the Company successfully completed a Secondary Offering of its securities, under which the Company sold 1,600,000 units at $7.00 per unit. Each unit consists of one share of Series A Convertible Preferred Stock, one Class B Warrant and one Class C Warrant. Each share of Preferred Stock may be converted by its holder into three shares of common stock commencing October 14, 1993 and entitled the holder to annual cumulative dividends of 7% per share, payable in cash or common stock at the sole discretion of the Company. Each Class B and Class C warrant entitles its holder to purchase one share of common stock at $3.25 and $4.25 per share, respectively, subject to adjustment upon the happening of certain events.

The Company intends to use the proceeds of the Secondary Offering for acquisitional, marketing and working capital purposes.

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits

(b) Reports on Form 8-K.

No report on Form 8-K has been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PDK LABS INC.

Dated: July 6, 1992

By: ________________________
Michael B. Krasnoff
President and Chief
Executive Officer
Chief Financial Officer

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

K92-2228

For Quarter Ended May 31, 1992 Commission File Number 0-18576

Pioneer Fed BanCorp, Inc.
(Exact name of Registrant as specified in its charter)

Delaware
r other jurisdiction of
i. ation or organization)

99-0276251
(I.R.S. Employer Identification No.)

900 Fort Street Mall, Honolulu, Hawaii
(Address of principal executive offices)

96813
(Zip Code)

(808) 522-6690
(Registrant's telephone number, including area codes)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate the number of shares outstanding for the issuer's classes of common stock, as of the latest practicable date.

Common Stock (Par Value $0.01 Per Share)
(Class)

2,568,728
(Outstanding on May 31, 1992)

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PIONEER FED BANCORP, INC.

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

PIONEER FED BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
May 31, 1992 (Unaudited) and November 30, 1991
(Dollars in Thousands, Except Par Value Per Share)

	May 31, 1992 (Unaudited)	November 30, 1991
Assets		
Cash and amounts due from depository institutions	$ 11,309	$ 7,346
Interest bearing deposits in depository institutions (includes $8,000 and $9,000 in cash equivalents at May 31, 1992 and November 30, 1991, respectively)	17,250	19,000
Loans held for sale (market value of $9,561 and $13,641 at May 31, 1992 and November 30, 1991, respectively)	9,299	13,145
Loans receivable, net	461,742	462,185
Federal Home Loan Mortgage Corporation mortgage-backed securities, at cost (market value of $33,759 and $36,069 at May 31, 1992 and November 30, 1991, respectively)	32,568	35,072
Premises and equipment, net	4,200	4,346
Real estate acquired in settlement of loans, net	347	-
Federal Home Loan Bank of Seattle stock, at cost	19,951	18,931
Accrued interest receivable	3,911	4,304
Other assets	9,365	3,225
Total Assets	$569,942	$567,554
Liabilities and Stockholders' Equity		
Deposits	$407,722	$412,181
Advances from Federal Home Loan Bank of Seattle and other borrowings	91,379	89,192
Advances by borrowers for taxes, lease rent and insurance	2,170	1,918
Income taxes payable	1,417	1,006
Deferred income taxes	2,063	1,413
Other liabilities	8,993	8,561
Total Liabilities	513,744	514,271
Stockholders' Equity (Note 3):		
Common stock, $0.01 par value 8,000,000 shares authorized: issued and outstanding: 2,568,728 at May 31, 1992 and 2,447,171 at November 30, 1991	26	24
Additional paid-in capital	29,206	26,989
Retained Earnings	28,845	28,262
ESOP debt	(1,879)	(1,992)
Total Stockholders' Equity	56,198	53,283
Total Liabilities and Stockholders' Equity	$569,942	$567,[illegible]

See accompanying notes to consolidated financial statements.

PIONEER FED BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income
(Unaudited)
(Dollars in Thousands, Except Per Share Data)

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
Interest income:				
Interest on loans	$11,582	$12,777	$23,540	$25,673
Interest on mortgage-backed securities	714	831	1,462	1,677
Interest and dividends on investments	592	837	1,379	1,726
Total interest income	12,888	14,445	26,381	29,076
Interest expense:				
Interest on deposits	5,396	6,996	11,294	14,139
Interest on advances from Federal Home Loan Bank of Seattle and other borrowings	1,767	2,061	3,677	4,094
Total interest expense	7,163	9,057	14,971	18,233
Net interest income	5,725	5,388	11,410	10,843
Provision for loan losses	265	162	414	307
Net interest income after provision for loan losses	5,460	5,226	10,996	10,536
Other income:				
Service fees on loan accounts	154	112	275	207
Service fees on deposit accounts	644	453	1,251	830
Other	404	215	627	422
Total other income	1,202	780	2,153	1,459
Other expense:				
Salaries and employee benefits	1,889	1,677	3,727	3,373
Occupancy and equipment	1,043	909	1,939	1,818
Telephone, postage and office supplies	259	238	547	491
Advertising	245	220	489	464
Federal deposit insurance premiums	256	249	511	492
Other	443	465	960	960
Total other expense	4,135	3,758	8,173	7,598
Income before income taxes	2,527	2,248	4,976	4,397
Income taxes	1,010	856	1,971	1,630
Net income	$ 1,517	$ 1,392	$ 3,005	$ 2,767
Net income per share				
Primary	$ .58	$ .54	$ 1.15	$ 1.07
Fully diluted	$ .58	$ .53	$ 1.15	$ 1.07

See accompanying notes to consolidated financial statements.

PIONEER FED BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in Thousands)

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
Cash flows from operating activities:				
Net Income	$ 1,517	$ 1,392	$ 3,005	$ 2,767
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	242	282	472	571
Accretion of deferred loan origination fees	(603)	(468)	(936)	(810)
Federal Home Loan Bank stock dividends	(496)	(259)	(1,020)	(498)
Provision for losses on loans and real estate acquired in settlement of loans	265	162	520	332
Deferred income tax expense	632	16	(52)	41
Gain on sale of loans	(251)	(26)	(251)	(26)
(Increase) Decrease in loans held for sale	9,539	(2,963)	3,846	(5,381)
Decrease in accrued interest receivable	233	296	393	180
Increase in real estate acquired in settlement of loans	-	-	(556)	-
Increase (Decrease) in income taxes payable	107	(619)	1,113	139
Net changes in other assets and liabilities	(4,624)	(2,730)	(5,295)	(5,688)
Net cash used in operating activities	6,561	(4,917)	1,239	(8,373)
Cash flows from investing activities:				
Additions to premises and equipment	(284)	(460)	(339)	(498)
Proceeds from sale of premises and equipment	6	-	18	-
Purchase of certificates of deposits with maturities over three months	(9,000)	(7,000)	(18,250)	(17,000)
Proceeds from maturing certificates of deposits with maturities over three months	9,000	11,000	19,000	18,000
Principal repayments on mortgage-backed securities	1,182	695	2,504	1,413
Purchase of Federal Home Loan Bank of Seattle stock	-	(2,000)	-	(2,000)
Proceeds from sale of real estate acquired in settlement of loans	111	-	111	131
Loans originated	(38,240)	(24,672)	(64,735)	(46,017)
Principal repayments on loans	35,169	34,095	65,951	53,492
Net cash provided by (used in) investing activities	$(2,056)	$11,658	$ 4,260	$ 7,521

PIONEER FED BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued
(Unaudited)

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
Cash flows from financing activities:				
Net increase (decrease) in deposits	$ (610)	$ 5,912	$(4,459)	$ 5,947
Proceeds from Federal Home Loan Bank advances and other borrowings	50,500	-	72,000	-
Principal repayments on Federal Home Loan Bank advances and other borrowings	(54,056)	(3,157)	(69,813)	(6,214)
Dividends paid to shareholders	(128)	-	(264)	-
Net cash provided by (used in) financing activities	(4,294)	2,755	(2,536)	(267)
Net increase (decrease) in cash and cash equivalents	211	9,496	2,963	(1,119)
Cash and cash equivalents at beginning of period	19,098	10,525	16,346	21,140
Cash and cash equivalents at end of period	$19,309	$20,021	$19,309	$20,021
Summary of noncash investing and financing activities:				
Decrease in guarantee of ESOP debt	$ 56	$ 57	$	$ 114
Financing on sale of real estate acquired in settlement of loans	$ -	$ -	$ -	$ 92
Cash paid for:				
Interest on deposits and borrowings	$ 7,466	$ 8,988	$15,413	$18,269
Income taxes	$ 500	$ 1,020	$ 1,150	$ 1,470

See accompanying notes to consolidated financial statements.

Note 1 - Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of Pioneer Fed BanCorp, Inc. and Subsidiary ("Company") contain all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of May 31, 1992 and the results of their operations and cash flows for the three and six months ended May 31, 1992 and 1991.

The results of operations for the three and six months ended May 31, 1992 are not necessarily indicative of the results to be expected for the full year.

Note 2 - Principles of Consolidation

The consolidated financial statements include the accounts of the Company, a unitary savings and loan holding company, and its wholly owned subsidiary Pioneer Federal Savings Bank ("Pioneer" or "Bank"), a federally chartered stock savings bank. Pioneer's three wholly owned subsidiaries include Pioneer Properties, Inc., Pioneer Insurance Agency, Inc. and Pioneer Real Estate Corporation. All significant intercompany balances and transactions have been eliminated.

Note 3 - Stockholders' Equity

The Board of Directors of Pioneer unanimously adopted a Plan of Conversion ("Plan") as of December 1, 1989 and amended as of January 5, and February 26, 1990. The Plan provided for the conversion of the Bank from a federally chartered mutual savings bank to a federally chartered stock savings bank, the concurrent acquisition by the Company of all of the capital stock of the Bank to be issued in connection therewith, and the offer and sale by the Company of the Common Stock in the Subscription Offering and the Public Offering, if necessary. On June 4, 1990, the Stock Conversion was consummated whereby 2,326,355 shares of common stock, par value $0.01 was sold at $11.50 to subscribers in the Subscription Offering period which expired on May 22, 1990, thereby eliminating the need of a Public Offering. Gross proceeds collected of approximately $26.7 million less conversion costs of approximately $1.3 million resulted in net proceeds of $25.4 million. Additionally, on June 4, 1990, the Employee Stock Ownership Plan ("ESOP") purchased and paid for 198,000 shares of the Company's common stock at a price of $11.50 per share. The Employee Stock Ownership Trust ("ESOT") obtained funds for the purchase from an independent third party bank.

Note 4 - Earnings Per Share

Primary earnings per share is computed by dividing applicable income amounts by the weighted average number of shares of common stock outstanding during each period including stock dividends paid and the dilutive effect of unexercised stock options using the treasury stock method which assumes that common stock was purchased at the average market price during the period.

Fully diluted earnings per share is calculated to reflect the maximum potential dilution by including the effect of unexercised stock options using the treasury stock method which assumes that common stock was purchased at the market price at the close of the period or the average market price during the period, whichever is higher.

A schedule of common shares and common share equivalents used in the earnings per share computation for the three and six months ended May 31, 1992 and 1991 is set forth below:

	Three Months Ended May 31, 1992		Six Months Ended May 31, 1992	
	Primary	Fully Diluted	Primary	Fully Diluted
Weighted average number of common shares outstanding	2,568,728	2,568,728	2,568,728	2,568,728
Dilutive effect of exercising stock options	50,395	50,956	49,222	49,503
Weighted average number of common shares and common equivalents	2,619,123	2,619,684	2,617,950	2,618,231

	Three Months Ended May 31, 1991		Six Months Ended May 31, 1991	
	Primary	Fully Diluted	Primary	Fully Diluted
Weighted average number of common shares outstanding	2,564,703	2,564,703	2,564,703	2,564,703
Dilutive effect of exercising stock options	31,078	44,803	16,524	33,046
Weighted average number of common shares and common equivalents	2,595,781	2,609,506	2,581,227	2,597,749

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The Company

Pioneer Fed BanCorp, Inc. ("Company") is a Delaware corporation formed in January 1990 to acquire all of the capital stock that was issued by Pioneer Federal Savings Bank ("Pioneer" or "Bank") upon Pioneer's conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank ("Conversion"). In the Conversion, the Company's common stock, par value $.01 per share ("Common Stock"), was offered to certain depositors and borrowers of the Bank, the Bank's Employee Stock Ownership Plan ("ESOP"), Retirement Pension Plan, and others. On June 4, 1990, the closing date for the Conversion, the Company sold 2,326,355 shares of its Common Stock and realized net proceeds of $25.4 million. At May 31, 1992, the Company had total assets of $569.9 million, liabilities of $513.7 million, and stockholders' equity of $56.2 million.

Currently, the Company's only significant business is engaged through its wholly owned subsidiary, Pioneer and its wholly owned subsidiaries. For federal regulatory purposes, the Company is treated as a unitary savings and loan holding company, which under present law, generally is not restricted in the types of business activities in which it may engage.

Pioneer

Pioneer is a federally chartered, Savings Association Insurance Fund ("SAIF") insured stock savings bank headquartered in Honolulu, Hawaii. Pioneer, chartered in 1890, currently conducts its business through nineteen full-service offices located on the islands of Oahu, Maui, Hawaii, and Kauai.

Pioneer's principal business consists of attracting deposits from the general public through a variety of deposit products and investing those deposits, together with borrowings, principally from the Federal Home Loan Bank ("FHLB") of Seattle, and other funds from ongoing operations, in the origination of one-to-four family residential mortgage loans and, to a lesser extent, consumer loans and other mortgage loans.

The Bank considers its primary marketing area for attracting deposits and making loans to be the islands of Oahu, Hawaii, Maui and Kauai. While Hawaii is expected to have slower economic growth than in recent years, it continues to outpace the nation's slower growth of recent years. Hawaii's 3.7% unemployment rate, although increasing, is well below the national unemployment rate.

The Company, a savings and loan holding company, is subject to the regulation, examination, supervision and reporting requirements of the Office of Thrift Supervision ("OTS"). Pioneer is a federally chartered savings bank, the deposits of which are insured by the Federal Deposit Insurance Corporation ("FDIC") through the SAIF. Pioneer is subject to broad federal regulation and oversight extending to all aspects of its operations by the OTS and the FDIC. The Bank is also a member of the FHLB of Seattle and is subject to certain limited regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board").

FINANCIAL REVIEW

Performance Highlights

Pioneer Fed BanCorp, Inc., reported net income for the three and six months ended May 31, 1992 of $1.5 million and $3.0 million, compared to $1.4 million and $2.8 million for the same periods a year ago. Six month earnings per share figures increased from $1.07 per share at May 31, 1991 to $1.15 per share at May 31, 1992, an increase of 7.48%. The earnings per share figures of $0.54 and $1.07 for the three and six months ended May 31, 1991 reflect the increase in shares from the 5% stock dividend paid on February 28, 1992.

Total consolidated assets of the Company increased slightly from $567.6 million at November 30, 1991, to $569.9 million at May 31, 1992. Stockholders' equity increased by $2.9 million, primarily reflecting net income earned for the six months ended May 31, 1992, payment of a $0.05 per share cash dividend to shareholders on February 28, 1992 and May 29, 1992, and reduction in the ESOP debt.

The Bank's non-performing assets were $2.5 million at May 31, 1992, compared to $1.8 million at November 30, 1991, an increase of $670,000 or 37.28%. At May 31, 1992, the ratio of non-performing assets to total assets was .43% or 11 basis points above the ratio at November 30, 1991 of 0.32%. The increase in non-performing assets was attributable to a greater number of delinquent mortgage loans as Hawaii's economy experienced slower economic growth rate and the acquisition of a real estate owned, which subsequent to May 31, 1992 has been sold.

OPERATING STRATEGY

Operating Strategy. There have been numerous challenges for the financial industry in recent years. With Pioneer's continued adherence to longstanding conservative banking principles our business strategy, which is summarized below, should result in further strengthening of the balance sheet and enhance the value of the Company.

Reduce Cost of Funds. Aided by falling interest rates and expanded marketing of core deposits Pioneer was able to reduce its overall cost of funds during the six months ended May 31, 1992. For the first six months of fiscal 1992, the Bank's cost of funds decreased 101 basis points from 6.98% as of November 30, 1991 to 5.97% as of May 31, 1992.

Management of the Bank believes that low cost of funds whether they be deposits, or borrowings are the cornerstone of Pioneer's profitability.

The Bank continued its strategy to acquire low cost deposits and replace higher cost borrowings, thereby increasing the Bank's net interest margin. To accomplish this task, Pioneer has continued its aggressive marketing of deposit products. The Bank's efforts have been concentrated on acquiring low cost deposits, primarily checking accounts, and certificates of deposit with terms of one year or less. At May 31, 1992, total deposits stood at $407.7 million, a decrease of $4.5 million compared to November 30, 1991. The decrease in deposits is due to the continued decline in interest rates during the first half of fiscal 1992. As with most financial institutions, Pioneer was not insulated from the effects of the dramatic drop in interest rates as depositors began switching to alternative investments with more attractive yields. In addition, the Bank's overall cost of borrowings decreased 85 basis points from 8.76% during the year ended November 30, 1991, to 7.91% during the six months ended May 31, 1992.

The Bank experienced a reduction in deposit accounts during the six months ended May 31, 1992 of $4.5 million. The decrease was primarily due to withdrawals of time accounts and jumbo certificates. Core deposits (i.e., savings passbook accounts, NOW and super NOW accounts), increased by $37.9 million during the six months ended May 31, 1992 compared to November 30, 1991.

Branch Expansion

It is important for the long-term success of Pioneer to enhance its presence and market share in the state of Hawaii's deposit and lending market areas. During the first six months of fiscal 1992, Pioneer opened two new branches on the island of Oahu. Both branch locations exhibit high potential for deposit and loan growth. With the opening of Pioneer's Pearl City branch in May 1992, the Bank's goal of expanding its branch system has been achieved.

Maintain Strong Asset Quality and Reduce Non-performing Assets. To maintain the credit quality of the Bank's assets, the Bank practices its policy of (i) originating real estate loans secured by real estate located in the state of Hawaii, (ii) reducing the Bank's investment in multi-family, commercial and other mortgage loans, and (iii) attempting to originate loans with low loan-to-value ratios. At May 31, 1992, $419.1 million, or 87.55% of the Bank's gross loan portfolio, was invested in one-to-four family residential mortgages compared to $340.5 million, or 79.30% of the Bank's gross loan portfolio, at December 31, 1986. During the same period, the Bank's multi-family real estate and commercial loan portfolio decreased $34.2 million, or 60.44% from $56.6 million at December 31, 1986 to $22.4 million at May 31, 1992. At May 31, 1992, $468.6 million, or 97.90%, of the Bank's gross loan portfolio had a loan-to-value ratio of less than 80%. The Bank's non-performing assets at May 31, 1992, increased $670,000 or 37.28% compared to $1.8 million at November 30, 1991. The increase in non-performing assets was attributable to a greater number of delinquent mortgage loans as Hawaii's economy experienced slower economic growth rate and the acquisition of a real estate owned, which subsequent to May 31, 1992 has been sold.

Reduce Vulnerability to Interest Rate Fluctuations. Of the residential mortgages Pioneer originates, a significant portion are Adjustable Rate Mortgage ("ARM") loans. Pioneer began concentrating on origination of ARM loans in 1986 as a means of reducing the Bank's vulnerability to interest rate fluctuations. The Bank originates fixed-rate loans on terms consistent with secondary market standards to enable the Bank to sell, at opportune times, the majority of the fixed-rate loans it originates. As a result, ARM loans and adjustable rate home equity loans, as a percentage of the Bank's gross loan portfolio, increased from 32.54% at December 31, 1986 to 78.50% at May 31, 1992. As a consequence of the Bank's emphasis on the origination of ARM loans and adjustable rate home equity loans, the cumulative amount of interest-earning assets maturing or repricing within one year exceeds the amount of interest-bearing liabilities maturing or repricing within that period by $129.1 million for a cumulative one year interest rate sensitivity gap of positive 22.66% at May 31, 1992.

There is no assurance that the Bank will be able to achieve its objectives, nor is it possible to predict whether future changes in regulatory, economic and competitive conditions will cause the Bank to revise its operating strategy. The operating results of the Bank are expected to remain dependent upon general economic conditions and the prevailing levels of interest rates for the foreseeable future.

Profile of Lending Activities

General. The principal lending activity of the bank is the origination of adjustable and fixed-rate conventional one-to-four family residential mortgage loans. Pioneer is also engaged in other types of mortgage lending, including home equity loans, loans on smaller multi-family projects and, to a lesser extent, in other consumer lending activities. Pioneer does not engage in acquisition, development and construction ("ADC") lending or in commercial lending on large projects. In addition to interest earned on loans, the Bank receives fees for loan originations, loan servicing, loan modifications, late payments and other miscellaneous services.

Loan Portfolio Composition. Pioneer's net loan portfolio totaled $471.0 million at May 31, 1992, and $475.3 million at November 30, 1991, representing 82.65% and 83.75%, respectively, of its total assets. At May 31, 1992, the portfolio included $419.1 million of one-to-four family mortgage loans, representing 87.55% of total gross loans. Of these one-to-four family loans, $341.3 million were ARM loans, representing 71.30% of total gross loans at that date. The following table sets forth the composition of the Bank's total loan portfolio by loan type at May 31, 1992 and November 30, 1991.

	At May 31, 1992		At November 30, 1991	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)			
Mortgage Loans:				
One-to-four family:				
Adjustable-rate	$341,289	71.30%	$335,536	69.36%
Fixed-rate	77,767	16.25	85,643	17.70
Total one-to-four family	419,056	87.55	421,179	87.07
Multi-family	7,486	1.56	7,993	1.65
Home equity	34,482	7.20	35,459	7.33
Commercial and other	14,891	3.11	15,771	3.26
Total mortgage loans	475,915	99.42	480,402	99.31
Consumer Loans:				
Auto	106	0.02	180	0.04
Secured and unsecured	341	0.07	400	0.08
Passbook	2,310	0.49	2,748	0.57
Total consumer loans	2,757	0.58	3,328	0.69
Total gross loans	$478,672	100.00%	$483,730	100.00%
Less:				
Unearned discounts and deferred loan origination fees	3,446	-	3,432	-
Allowance for loan losses	2,743	-	2,333	-
Undisbursed portion of loans in process	1,442	-	2,635	-
Net Loans	$471,041		$475,330	

Loan Originations, Purchases and Sales. The Bank has concentrated its lending activities on the origination of first mortgage loans for the purchase of residential properties. At May 31, 1992, $419.1 million or 87.55% of Pioneer's gross loan portfolio was invested in one-to-four family residential mortgages. Pioneer has general authority to originate and purchase loans secured by real estate located throughout the United States. However, consistent with its emphasis on being a community-oriented financial institution, the Bank's origination of mortgage loans has historically been confined to Hawaii. At May 31, 1992, 96.40%, or $461.2 million, of the Bank's gross loan portfolio was secured by real estate located in the state of Hawaii.

The Bank offers ARM loans with terms of up to 30 years. The ARM loans currently offered by the Bank have an initial fixed interest rate for a six- to 12-month period with interest adjustments every six months or annually thereafter based on the one year U.S. Treasury Constant Maturity Index, as made available by the Federal

Reserve Board, or an index published by the FHLB of San Francisco of the monthly weighted average cost of savings, borrowings and advances of the member institutions of the FHLB of San Francisco. The amount of any increase or decrease in the interest rate on ARM loans is limited to 2% per year, with a maximum increase of 5% over the initial rate for the duration of the loan. The Bank's ARM loans may be offered with "teaser rates," initial rates that are lower than the fully indexed rate. These teaser rates are determined by the Bank in accordance with market and competitive factors. The Bank does not currently offer ARM loans with negative amortization. The terms and conditions, including the index for interest rates of the ARM loans offered by the Bank, may vary from time to time.

Pioneer currently offers fixed-rate loans with 15- and 30-year terms. Fixed-rate loans are underwritten on terms consistent with secondary market standards. The Bank's current policy is to classify the majority of the long-term, fixed-rate loans that it originates as held for sale. The Bank intends to review this policy from time to time in order to determine whether or not long-term, fixed-rate loans should continue to be held for sale, primarily to the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA") or for investment.

A substantial portion of the property in the state of Hawaii is leased pursuant to long-term ground leases rather than owned in fee simple. Residential leases in Hawaii are generally for 55-year terms, with the lease payments generally fixed for the first 20 to 30 years of the term. On residential property, the Bank's policy is to require that the leasehold term of a property securing a mortgage loan extend for at least five years beyond the term of the loan with a minimum fixed rental period of ten years on a fully amortizing loan. The Bank also makes balloon loans on such properties; these loans must have a remaining lease term of 35 years with a minimum fixed rental period of ten years. For loans on income property where the property is subject to long-term leases, the loan term shall not exceed the term of the fixed-rent period with a minimum loan term of 10 years and a lease term that extends ten years beyond the term of the loan. These loans are amortized over the fixed rent period, not to exceed 30 years.

The Bank offers its customers home equity lines of credit that enable applicants to borrow funds secured by the equity in their home. The credit line, when combined with the balance of the first mortgage lien, may not exceed a given percentage, generally 75% of the appraised value of the property at the time of the home equity line commitment. Home equity lines of credit are secured by a first or second mortgage on the underlying real estate and are typically granted for a fixed period of between 10 and 15 years. The Bank historically has not charged a fee for these loans. Home equity lines of credit currently offered by the Bank typically lending rate charged by a Hawaii-based commercial bank. The interest rate on home equity lines of credit adjusts with the prime lending rate. At May 31, 1992, the Bank had approved $51.5 million of home equity lines of credit, of which $34.5 million was outstanding.

The Bank makes loans on multi-family residential properties when a suitable opportunity arises. At May 31, 1992, the Bank's multi-family real estate loan portfolio totaled $7.5 million, or 1.56% of the gross loan portfolio. Pioneer also makes fixed-term second mortgage loans from time to time on residential properties located in Hawaii. At May 31, 1992, the Bank had $3.2 million in second mortgage loans outstanding.

Pioneer occasionally makes construction loans on one-to-four family residential properties. Such loans are typically made with a 30-year term and provide for payment of interest only during the first year of the term, the construction period, after which time the loan converts to a standard residential mortgage loan for the remaining life of the loan. As of May 31, 1992, the Bank's construction loan portfolio was $5.0 million, or 1.04% of the gross loan portfolio, or $3.5 million net of $1.4 million in loans in process. Pioneer currently does not make mortgage loans on nonresidential property. At May 31, 1992, Pioneer's portfolio of loans on nonresidential properties had an aggregate principal amount of $14.9 million, or 3.11% of the gross loan portfolio.

Consistent with the Bank's policy of providing a range of financial services to existing and potential customers, Pioneer currently offers a variety of consumer loans, including automobile loans, real estate secured consumer loans and personal loans. In recent years, the Bank's policy has been to make automobile loans on a very limited basis. At May 31, 1992, consumer loans totaled $2.8 million, or 0.58% of the Bank's gross loan portfolio.

The following table sets forth the Bank's loan originations, sales and principal repayments for the periods indicated.

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
	(In Thousands)			
Loan originations				
Mortgage loans				
Adjustable-rate	$30,581	$17,806	$50,358	$31,100
Fixed-rate	13,165	9,215	20,244	12,809
Total mortgage loan originations	43,746	27,021	70,602	43,909
Home equity loans	4,758	4,966	8,430	9,908
Consumer loans	749	1,251	1,423	2,632
Total loan originations	49,253	33,238	80,455	56,449
Loans sold				
Fixed-rate mortgage	21,676	5,820	21,768	5,820
Loan principal reductions	33,433	33,673	63,746	52,764
Total loan sales and loan principal reductions	55,109	39,493	85,514	58,584
Increase (decrease) in loans receivable(1)	$(5,856)	$(6,255)	$(5,059)	$(2,135)

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(1) The increase (decrease) in loans receivable does not include changes in deferred loan origination fees, allowance for loan losses and undisbursed portion of loans in process.

Asset Classifications, Loan Delinquencies and Allowance for Losses. On December 31, 1987, the predecessor to the OTS adopted a classification system for problem assets of insured institutions which covers all problem assets, including assets that previously had been treated as "scheduled items." Under this classification system, problem assets of insured institutions are classified as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. An asset which currently does not warrant classification as "substandard" but which possess weaknesses or deficiencies deserving close attention is required to be designated as "special mention." Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable."

Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution classifies problem assets as either substandard or doubtful, it is required to establish general valuation allowances in accordance with Generally Accepted Accounting Principles ("GAAP") in an amount deemed prudent by management. General valuation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific valuation allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific valuation allowance equal to the amount so classified or to charge off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the District Director of the OTS, who can, among other things, modify any asset classification or order the establishment of additional general or specific valuation allowances.

In connection with the filing of its periodic reports with the OTS, the Bank regularly reviews its loans to determine whether any loans require classification in accordance with the applicable regulations. The following table sets forth certain information concerning the Bank's classified assets at May 31, 1992 and November 30, 1991, and the ratio of classified assets to total assets.

	Substandard	Doubtful	Loss	Total
	(Dollars in Thousands)			
May 31, 1992:				
Mortgage loans	$4,630	$350	$247	$5,227
Consumer loans	80	2	10	92
Real estate owned	347	-	-	347
Total classified assets	$5,057	$352	$257	$5,666
Ratio of classified assets to total assets	.89%	.06%	.04%	.99%
November 30, 1991:				
Mortgage loans	$3,852	$210	$258	$4,320
Consumer loans	209	3	33	245
Real estate owned	-	-	-	-
Total classified assets	$4,061	$213	$291	$4,565
Ratio of classified assets to total assets	.71%	.04%	.05%	.80%

Management conducts a regular review and follow-up of all loan delinquencies. When a borrower fails to make a payment on a loan, the Bank will take steps to have the borrower cure the delinquency and restore the loan to current status. If a mortgage loan delinquency exceeds 45 days and is not cured through the Bank's normal collection procedures, the Bank will generally commence a foreclosure action. If a foreclosure action is instituted and the loan is not reinstated, paid in full or refinanced, the real property is sold at a judicial sale at which, in some instances, the property may be purchased by the Bank. A property purchased by the Bank in such a sale is included in the Bank's real estate owned account until the property is sold. The Bank's policy is to establish a reserve for uncollected interest once a mortgage loan becomes more than 90 days delinquent or, in the opinion of management, its collectibility is doubtful. Accordingly, the Bank does not accrue interest income on loans more than 90 days delinquent. Under Hawaii law, lending institutions are permitted to recover deficiency judgments from borrowers.

The following table sets forth information with respect to certain non-performing assets identified by management, including non-accrual loans delinquent more than 90 days and real estate owned at the dates indicated.

	At May 31, 1992	At November 30, 1991
	(Dollars in Thousands)	
Non-accrual loans, delinquent more than 90 days:		
Mortgage loans	$2,057	$1,620
Consumer loans	63	177
Total non-accrual loans, delinquent more than 90 days	2,120	1,797
Real estate owned	347	-
Total non-performing assets	$2,467	$1,797
Re-negotiated loans not included above:		
Mortgage loans	$3,842	$3,042
Non-performing assets to total assets	.43%	.32%
Non-accrual loans to total loans(1)	.44%	.37%

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(1) Represents total of loans delinquent more than 90 days to total gross loans.

During the period ended May 31, 1992, the Bank's non-performing assets increased $670,000, or 37.28% compared to $1.8 million at November 30, 1991. The increase in non-performing assets was attributable to a greater number of delinquent mortgage loans as Hawaii's economy experienced slower economic growth rate and the acquisition of a real estate owned, which subsequent to May 31, 1992 has been sold. Management of the Bank believes these loans are adequately secured and pose little risk to Pioneer.

Losses on loans are charged to the allowance for loan losses. Additions to this allowance are made by recoveries of loans previously charged off and by a provision charged to expense. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on the collectibility of loans and prior loan loss experience. The determination of the balance of the allowance for loan losses is based on an analysis of the loan portfolio, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate allowance.

The following table shows an analysis of the allowance for loan losses for the periods indicated.

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
	(Dollars in Thousands)			
Balance at beginning of period	$2,461	$1,772	$2,334	$1,707
Provision for loan losses	265	162	414	307
Charge-offs				
Mortgage loans	-	-	(15)	(32)
Consumer loans	(9)	(46)	(42)	(118)
Total charge-offs	(9)	(46)	(57)	(150)
Recoveries:				
Mortgage loans	-	-	-	2
Consumer loans	26	27	52	49
Total recoveries	26	27	52	51
Net (Charge-offs) recoveries	17	19	(5)	99
Balance at end of period	$2,743	$1,915	$2,743	$1,915
Ratio of allowance for loan losses to total outstanding loans (gross) at end of period	.57%	.41%	.57%	.41%
Ratio of net charge-offs during the period to average loans outstanding (gross) during the period	-%(1)	.01%	-%(1)	.02%

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(1) Amount is less than .01%.

Investment Activities

The Bank's investment policy authorizes investment by the Bank in obligations issued or guaranteed by the United States government or an agency or instrumentality thereof, provided that the maturity of such obligation is less than five years. In addition, the Bank's investment policy authorizes the purchase of certificates of deposit in other financial institutions after evaluation of such institution's current financial position and results of operations. In addition, each institution approved by the Board of the Bank for investment must meet certain pre-established criteria.

The following table sets forth certain information regarding the Bank's investment portfolio at the dates indicated.

	At May 31, 1992	At November 30, 1991
	(Dollars in Thousands)	
Investment portfolio:		
FHLB of Seattle stock	$19,951	$18,931
Certificates of deposit American Savings Bank Honolulu, Hawaii	8,000	8,000
Certificates of deposit Other institutions	9,250	11,000
Total investment portfolio	$37,201	$37,931
Weighted average term to maturity, in years, of total portfolio	.11	.11

Mortgage-Backed Securities

In 1988 the Bank securitized long-term, fixed-rate mortgages held in its portfolio into FHLMC participation certificates. Presently the Bank utilizes the mortgage-backed securities in its portfolio primarily to secure public funds on deposit with Pioneer. In addition, mortgage-backed securities are readily saleable assets and facilitate compliance with the risk-based capital component of the capital requirements promulgated by the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). At May 31, 1992, and November 30, 1991, the Bank's FHLMC participation certificates totaled $32.6 million and $35.1 million, respectively.

SOURCE OF FUNDS

General. The Bank's lending and investment activities are funded primarily by deposits, borrowings from the FHLB of Seattle, and principal and interest payments on loans and investments. Borrowings from the FHLB of Seattle and payments on loans and investments are relatively stable sources of funds, while deposit inflows and outflows and loan prepayments may be significantly influenced by general market interest rates and economic conditions.

Deposits. Pioneer attracts both short-term and long-term deposits from the general public by offering a wide variety of deposit products. Pioneer considers its primary market for attracting deposits to be the entire state of Hawaii, however, the branches of the Bank located on the island of Oahu account for a substantial portion of the Bank's deposits. The Bank does not accept brokered deposits. Pioneer offers regular passbook accounts, Christmas club accounts, NOW and super NOW accounts, money market checking accounts and market rate certificates of deposit with terms ranging from 14 days to 120 months.

The following table sets forth the distribution of the Bank's deposit accounts at the dates indicated and the weighted average interest rates on each category of deposits.

	At May 31, 1992			At November 30, 1991		
	Amount(1)	Percent of Deposits	Weighted Average Nominal Rate	Amount(1)	Percent of Deposits	Weighted Average Nominal Rate
	(Dollars in Thousands)					
Savings accounts	$ 81,307	19.90%	4.78%	$ 60,181	14.57%	5.01%
Time accounts	202,217	49.49	6.59	211,822	51.29	7.60
Time accounts $100,000 & over	49,253	12.05	5.48	74,187	17.96	6.97
Money market accounts	26,631	6.52	5.06	22,462	5.44	5.50
NOW and Super NOW accounts	48,594	11.89	3.34	42,971	10.41	3.64
Club deposits	623	.15	5.00	1,350	.33	6.44
Total	$408,625	100.00%	5.61%	$412,973	100.00%	6.58%

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(1) Represents weighted average daily balance.

The net decrease in deposit accounts was approximately $4.5 million during the six months ended May 31, 1992. Excluding interest credited, deposit accounts decreased by approximately $13.8 million for the six months ended May 31, 1992.

ESOP Debt. On June 4, 1990, the Employee Stock Ownership Trust ("ESOT") borrowed $2.3 million from an independent unrelated bank to purchase 198,000 shares of Common Stock of the Company at the conversion price of $11.50 per share. The Common Stock which the Employee Stock Option Plan ("ESOP") has purchased has been pledged as security to guarantee the Plan's repayment of the loan. The loan, which has a maturity term of 10 years, requires quarterly payment of equal installments of principal and interest with a variable interest rate at 1.0% over the prime lending rate. The outstanding balance of $1.9 million was reflected as a liability as of May 31, 1992.

RESULTS OF OPERATIONS

General. The Company's only business is conducted through Pioneer and its subsidiaries. Consequently, the Company's operations exclusive of Pioneer are negligible.

The operating results of Pioneer depend primarily on its net interest income, which is the difference between the yield on loans, investments and other interest-earning assets and the rate paid on deposits and borrowings. The operating results of the Bank are also generally affected to a lesser extent by the amount of its non-interest income, such as gains or losses on the sales of loans and properties, loan origination fees, service fees on deposit and loan accounts, and other income. The Bank's principal non-interest operating expenses are salaries and employee benefits, occupancy and equipment, deposit insurance and taxes. The Bank's results of operations are also affected by other factors, including regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flow.

Net income for the Company increased $125,000 or 8.98%, to $1.5 million for the three months ended May 31, 1992 from $1.4 million for the same period in the prior year. The Bank's net income increased $238,000 or 8.60%, to $3.0 million for the six months ended May 31, 1992 from $2.8 million for the six months ended May 31, 1991. The increase in net income for the three and six months ended May 31, 1992, was primarily due to an improvement in the Bank's net interest income, which resulted from generally lower interest rates in fiscal 1992 compared to 1991.

The following table sets forth, by interest rate category, the amount of time deposits outstanding as of the dates indicated and the periods to maturity of the time deposits outstanding at May 31, 1992.

Rate	At November 30, 1991	At May 31, 1992	At May 31, 1992, Maturing: Less Than One Year	One-Two Years	Two-Three Years	After Three Years	Total
			(In Thousands)				
Below 5.5%	$ 8,766	$106,558	$ 93,441	$12,354	$ 567	$ 196	$106,558
5.51% - 6.5%	110,784	47,027	45,525	1,219	129	154	47,027
6.51% - 7.5%	120,700	61,111	53,520	3,763	3,022	806	61,111
7.51% - 8.5%	32,236	16,613	10,849	3,771	1,477	516	16,613
8.51% - 9.5%	583	482	130	115	-	237	482
9.51% - 10.5%	63	57	14	5	34	4	57
10.51% - 11.5%	683	704	38	564	76	26	704
11.51% - 12.5%	564	370	87	141	142	-	370
12.51% - 13.5%	936	694	364	300	30	-	694
13.51% - 14.5%	243	164	164	-	-	-	164
14.51% - 15.5%	229	37	37	-	-	-	37
15.51% - 16.5%	5	-	-	-	-	-	-
	$275,784	$233,817	$204,169	$22,232	$5,477	$1,939	$233,817

Borrowings. Although deposits are the Bank's primary source of funds, the Bank's policy has been to utilize borrowings as an additional source of funding for the production of mortgage loans. At May 31, 1992, the Bank's FHLB of Seattle advances totaled $89.5 million, representing 17.42% of the Bank's total liabilities. At May 31, 1992, the Bank had no reverse repurchase agreements outstanding.

The following table sets forth certain information regarding borrowed funds at the dates indicated:

	At May 31, 1992	At November 30, 1991
	(In Thousands)	
Variable rate cash management advances:	$10,000	$ 4,500
Fixed-rate FHLB of Seattle advances:		
4.50% - 9.00% due in 1992	8,500	31,700
4.40% - 11.50% due in 1993	41,000	30,000
7.45% - 9.00% due in 1994	15,000	15,000
5.40% - 9.10% due in 1995	15,000	5,000
Total advances from FHLB of Seattle	$89,500	$87,200
ESOP debt	1,879	1,992
Total borrowings	$91,379	$89,192

Net Interest Income

General. Net interest income, the primary contributor to earnings, represents the difference between income on interest-earning assets (primarily loans and investments) and expense on interest-bearing liabilities (primarily deposits and borrowings). Net interest income is affected by the difference between rates of interest earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest income is also affected by the relative amount of interest-earning assets and interest-bearing liabilities.

Net interest income during the three and six months ended May 31, 1992, increased by $337,000, or 6.25% and $567,000 or 5.23% compared to the same prior year periods. For the quarter and six months ended May 31, 1992, net interest income increased due to a general decline in interest rates in 1992 compared to 1991.

Yields Earned and Rates Paid. The interest rate spread for the three and six months ended May 31, 1992, were 3.72% and 3.62%, respectively; 32 and 28 basis points higher than the comparable periods of the prior year. The improvement in the net interest rate spread was due to decreases in cost of deposits and borrowings. During the three and six months ended May 31, 1992, the weighted average cost of deposits and borrowings were 5.69% and 5.97%, respectively, compared to 7.11% and 7.23% for the same periods in the prior year. As a result, the Bank's interest rate spread increased by 32 basis points and 28 basis points, respectively, for the three and six months ended May 31, 1992, compared to the same prior year periods.

The following table sets forth certain information relating to the Bank's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs were derived by dividing income and expense by the average daily balance of assets (including nonaccrual loans) or liabilities, respectively, for the periods shown.

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
	Weighted Average Annual Yield/ Cost	Weighted Average Annual Yield/ Cost	Weighted Average Annual Yield/ Cost	Weighted Average Annual Yield/ Cost
Interest-earning assets:				
Loans, net	9.73%	10.88%	9.86%	10.94%
Mortgage-backed securities	8.62	8.79	8.66	8.78
Investment portfolio:				
Taxable investment securities	7.16	9.17	9.05	8.98
Certificates of deposit	4.86	6.96	5.13	7.49
Total investment portfolio	6.07	7.93	7.16	8.10
Total interest-earning assets	9.41	10.51	9.59	10.57
Interest-bearing liabilities:				
Savings, Time and Club accounts	5.58	7.20	5.88	7.35
NOW and Super NOW accounts	3.82	4.27	3.95	4.30
Federal Home Loan Bank advances	7.68	8.73	7.92	8.77
Other borrowings	6.92	11.03	7.69	11.00
Total interest-bearing liabilities	5.69	7.11	5.97	7.23
Net interest rate spread	3.72%	3.40%	3.62%	3.34%
Net yield on average interest-earning assets	4.16%	3.89%	4.15%	3.95%

Net Interest-Earning Balance. The improvement in net interest income for the three and six months ended May 31, 1992, is partially due to the Bank's improvement in the excess amount of interest-earning assets compared to interest-bearing liabilities. When interest-earning assets exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. When interest-earning assets are less than interest-bearing liabilities, the Bank may incur a net interest expense even when its interest rate spread is positive. The difference between the amount of interest-earning assets and interest-bearing liabilities is referred to as the "net interest-earning balance." Pioneer maintained a positive average net interest-earning balance of $48.3 million and $44.4 million during the six months ended May 31, 1992 and 1991, respectively.

The following table presents the average balance of the Bank's interest-earning assets and interest-bearing liabilities for the periods indicated.

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
	(Dollars in Thousands)			
Interest-earning assets:				
Loans and mortgage-backed securities	$509,262	$507,676	$511,406	$507,385
Investments	38,809	41,849	38,509	42,718
Total interest-earning assets	548,071	549,525	549,915	550,103
Interest-bearing liabilities:				
Deposits	409,093	412,307	408,703	412,638
Borrowings	91,722	93,140	92,937	93,046
Total interest-bearing liabilities	500,815	505,447	501,640	505,684
Net interest-earning balance	$ 47,256	$ 44,078	$ 48,275	$ 44,419
Ratio of interest-earning assets to interest-bearing liabilities	1.09	1.09	1.10	1.09

Interest Income. Total interest income decreased $1.6 million and $2.7 million for the three and six months ended May 31, 1992 compared to the same periods in the prior year. The decrease in interest income was due to downward repricing of ARM loans, continued repayment on mortgage-backed securities, and lower yields on investments in certificates of deposit. Interest income from the Bank's mortgage-backed securities portfolio decreased $117,000 and $215,000 for the three and six months ended May 31, 1992, compared to the comparable periods of the prior year. The decrease in the interest income on mortgage-backed securities for the three and six month period was due to the continued monthly repayment of the security as the Bank has not purchased or securitized any new mortgage-backed securities since April 1990. Interest and dividends on investments decreased $245,000 and $347,000 for the three and six months ended May 31, 1992, over the same prior year periods. For the first half of fiscal 1992, the weighted average yield on certificates of deposit decreased 2.36% from 7.49% to 5.13% as of May 31, 1991 and 1992, respectively.

Interest Expense. Total interest expense on deposits and borrowings decreased $1.9 million, or 20.91% and $3.3 million or 17.89%, for the three and six months ended May 31, 1992, respectively, compared to the same prior year periods. Interest expense on deposits decreased by $1.6 million and $2.8 million for the three and six months ended May 31, 1992, compared with the three and six month periods for 1991. The decrease in interest expense for the three and six month periods was due to lower rates on savings, time and club accounts, and borrowings compared to the prior year. As of May 31, 1992, the Bank's weighted average cost of funds was 5.97%, 126 basis points lower than the prior year six month period.

Rate and Volume Analysis

Net interest income can also be analyzed in terms of the impact of changing rates and changing volumes. The following table illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Bank's interest income and interest expense during the periods indicated. Information is provided in each category with respect to changes attributable to (i) change in volume (change in volume multiplied by prior rate), (ii) change in rates (change in rate multiplied by prior volume) and (iii) changes in rate/volume (change in rate multiplied by the change in volume.)

	Three Months Ended May 31, 1992 Compared with 1991 Increase (Decrease)				Six Months Ended May 31, 1992 Compared with 1991 Increase (Decrease)			
	Volume	Rate	Rate/ Volume	Net	Volume	Rate	Rate/ Volume	Net
	(Dollars in Thousands)							
Interest and dividend income on:								
Loans, net	$172	$(5,403)	$4,036	$(1,195)	$464	$(5,067)	$2,470	$(2,133)
Mortgage-backed securities	(104)	(64)	51	(117)	(196)	(46)	26	(216)
Taxable investment securities	47	(370)	265	(58)	106	12	(3)	115
Certificates of deposit	(89)	(492)	394	(187)	(246)	(593)	377	(462)
Total income on interest-earning assets	26	(6,329)	4,746	(1,557)	128	(5,694)	2,870	(2,696)
Interest expense on:								
Savings, time and club accounts	(294)	(5,622)	4,261	(1,655)	(562)	(5,092)	2,683	(2,971)
NOW and Super NOW accounts	140	(294)	204	50	245	(224)	96	117
FHLB advances and other borrowings	(31)	(997)	734	(294)	(5)	(847)	435	(417)
Total expense on interest-bearing liabilities	(185)	(6,913)	5,199	(1,899)	(322)	(6,163)	3,214	(3,271)
Net interest income	$211	$ 584	$ (453)	$ 342	$450	$ 469	$ (344)	$ 575

Provisions for Loan Losses. During the three and six months ended May 31, 1992, the Bank provided $265,000 and $414,000, respectively, for possible loan losses compared to $162,000 and $307,000 provided for the three and six months ended May 31, 1991.

Other Income. Total other income increased $422,000, or 54.10% and $694,000 or 47.57%, for the three and six months ended May 31, 1992 compared with the similar periods in the prior year. The increase in other income is due to recognition of a non-recurring gain on sale of loans and increased income from service fees on deposit accounts. As part of the Bank's conservative operating strategy, recognition of the gain was offset by an increase in the provision for loan losses. Excluding the gain on sale of loans, other income increased $171,000 or 21.92% and $443,000 or 30.36% for the three and six months ended May 31, 1992, respectively. The Bank's current marketing strategy of attracting checking accounts has had a positive impact on the increase in service fee income. Since initiating the checking account marketing program in March 1991, Pioneer has attracted over 15,000 new accounts. The increase in number of accounts has resulted in steady increases in service fee income. For the three and six months ended May 31, 1992, service fees on deposit accounts increased $191,000 or 42.16% and $421,000 or 50.72%, respectively, over the prior year.

Other Expense. Total other expense increased $377,000, or 10.03% and $575,000 or 7.57% for the three and six months ended May 31, 1992 compared to the same periods in the prior year. The increase in total other expense is primarily due to increases in salaries and employee benefits. The higher salary levels are due to the normally recurring salary adjustments, and an increase in branch staff with the opening of two new branches in the first six months of fiscal 1992.

Income Tax Expense. For financial reporting purposes, the Bank recorded income tax expense of $1.0 million and $2.0 million for the three and six months ended May 31, 1992, respectively. This compares with $856,000 and $1.6 million for the three and six months ended May 31, 1991, respectively. The increased expense in 1992 reflects the Company's increased pretax income and the impact of the provision for loan losses.

ASSET/LIABILITY MANAGEMENT

As a result of the Bank's management of its asset/liability structure, Pioneer has made substantial progress in increasing the interest rate sensitivity of its assets. In recent years the majority of the loans originated by the Bank for retention in its portfolio were ARM loans and home equity loans. In addition, the Bank has significantly improved the match between the maturities and periods to repricing of its interest-earning assets and interest-bearing liabilities. The results of the Bank's asset/liability management efforts at May 31, 1992 are illustrated by the following:

- The amount of interest-earning assets maturing or repricing within six months exceeded the amount of interest-bearing liabilities maturing or repricing within that period by $68.1 million, resulting in a cumulative six months interest rate sensitivity gap of positive 11.96%.

- The amount of interest-earning assets maturing or repricing within one year exceeded the amount of interest-bearing liabilities maturing or repricing within that period by $129.1 million, resulting in a cumulative one year interest rate sensitivity gap of positive 22.66%.

A positive gap for a given period means that the amount of interest-earning assets maturing or otherwise repricing within such period exceeds the amount of interest-bearing liabilities maturing or otherwise repricing within the same period. Accordingly, in a rising interest rate environment, an institution with a positive gap generally experiences a greater increase in the yield on its assets than in the cost of its liabilities. Conversely, the cost of funds of an institution with a positive gap generally decreases less than the yield on its assets in a falling interest rate environment. Changes in interest rates generally have the opposite effect on an institution with a negative gap. A rising interest rate environment imposes risks on an institution with a negative gap because its liabilities will adjust more rapidly than its assets during the relevant period; accordingly, the increase in the cost of its liabilities will generally exceed the increase in the yield on its assets. The Bank's gap management strategy is influenced by management's forecast of market interest rates.

Although the Bank has improved the interest rate sensitivity of its assets through the origination of ARM loans and home equity loans, management of the Bank believes that it is not in the Bank's best interest to cease origination of fixed-rate loans. Rather, the Bank has originated fixed-rate loans (i) primarily for sale into the secondary market in order to generate fee income and to offer a complete range of mortgage loan products to its customers, and (ii) for retention in the Bank's portfolio when management believes the rate of return on such loans is appropriate for retention. While the Bank has retained in its portfolio a relatively small portion of the fixed-rate loans it has originated in recent years, management believes that under certain circumstances retention of such loans presents an opportunity to increase the overall yield of the Bank's loan portfolio without incurring undue interest rate or credit risk.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at May 31, 1992, which are expected to reprice or mature in each of the time periods shown. The amount of assets and liabilities shown that reprice or mature during a particular period was determined in accordance with the contractual terms of the asset or liability. The table assumes prepayment rate on residential fixed-rate first mortgages and mortgage-backed securities and a decay rate on NOW, Super NOW, MMDA, regular savings and club accounts. Loans and mortgage-backed securities that have adjustable rates are shown as being due in the period during which the interest rates are next subject to change. The assumptions are based on the assumptions used by the OTS in its quarterly gap management report for the first quarter of 1992. That rate was applied to outstanding balances at the end of the period.

	At May 31, 1992						
	Less than 6 months	More than 6 months to 1 Year	More than 1 year to 3 Years	More than 3 years to 5 Years	5 years to 10 Years	Over 10 Years	Total
	(Dollars in Thousands)						
Interest-earning assets, net							
Mortgage loans	$186,262	$154,942	$ 33,581	$16,148	$17,862	$ 6,537	$415,332
Construction loans	2,540	1,516	-	-	-	-	4,056
Home equity	32,139	2,253	-	-	-	-	34,392
Consumer loans	1,386	894	66	20	3	-	2,369
Mortgage-backed securities	2,000	1,891	6,582	5,249	8,894	7,952	32,568
Commercial and other loans	6,065	2,013	5,682	476	480	176	14,892
Taxable investment securities	19,951	-	-	-	-	-	19,951
Certificates of deposit	17,250	-	-	-	-	-	17,250
Total interest-earning assets	$267,593	$163,509	$ 45,911	$21,893	$27,239	$14,665	$540,810
Interest-bearing liabilities:							
NOW, Super NOW and MMDA accounts	$ 29,578	$ 18,237	$ 17,685	$ 5,711	$ 6,819	$ 3,897	$ 81,927
Regular savings and club accounts	8,232	7,499	23,893	16,460	21,206	15,243	92,533
Time accounts	141,262	62,793	27,711	1,726	212	-	233,704
Advances from FHLB	18,500	14,000	52,000	5,000	-	-	89,500
Other borrowings	1,879	-	-	-	-	-	1,879
Total interest-bearing liabilities	$199,451	$102,529	$121,289	$28,897	$28,237	$19,140	$499,543
Interest sensitivity gap per period	$ 68,142	$ 60,980	$(75,378)	$(7,004)	$ (998)	$(4,475)	$ 41,267
Cumulative interest sensitivity gap	$ 68,142	$129,122	$ 53,744	$46,740	$45,742	$41,267	
Cumulative gap as a percent of total assets	11.96%	22.66%	9.43%	8.20%	8.03%	7.24%	
Cumulative interest-sensitive assets as a percent of interest sensitive liabilities	134.16%	142.76%	112.70%	110.34%	109.52%	108.26%	

The table above does not necessarily indicate the impact of general interest rate movements on the Bank's net interest yield because the repricing of various assets and liabilities is discretionary with the Bank and is subject to competitive and other pressures. As a result, assets and liabilities indicated as repricing within the same period may in fact reprice at different times and at different rate levels.

CAPITAL RESOURCES AND LIQUIDITY

The Bank's capital position at May 31, 1992, was $55.6 million, or 9.78% of total assets. Under FIRREA, savings and loan associations are required to meet certain regulatory capital standards. The Bank is required under regulations promulgated by the OTS to meet three capital standards: a "tangible capital requirement", a "leverage limit" , and a "risk-based capital requirement". These capital standards became effective on December 7, 1989

The leverage limit requires that a savings association maintain "core capital" of at least 3% of its adjusted total assets. For purpose of this requirement, total assets are adjusted to exclude intangible assets and investments in certain other subsidiaries, and to include assets of certain other subsidiaries, certain intangibles arising from prior period supervisory transactions, and permissible purchased mortgage servicing rights. Under OTS regulations, core capital means core capital as defined for national banks (generally common stock, certain preferred stock, additional paid-in capital and retained earnings, less certain intangible assets). Through December 31, 1994, for purposes of meeting the leverage limit, certain savings associations deemed eligible by the OTS may refrain from deductions from core capital a certain percentage of supervisory goodwill in existence on April 12, 1989. The FDICIA requires each appropriate federal bank regulatory agency to determine the amount of readily marketable purchased mortgage servicing rights that may be included in the capital of institutions under its jurisdiction. Pioneer has no supervisory goodwill and no purchased mortgage servicing rights.

The tangible capital requirement mandates that a savings association maintain tangible capital of at least 1.50% of adjusted total assets. For purposes of this requirement, adjusted total assets are generally calculated on the same basis as for the leverage limit. Tangible capital is defined in the same manner as core capital, except that all goodwill must be deducted. Because Pioneer has no goodwill, its tangible capital is equal to its core capital.

The risk-based standards of the OTS require, as of January 1, 1993, maintenance of core capital equal to at least 4.00% of risk-weighted assets, and total capital equal to at least 8.00% of risk-weighted assets. The risk-based capital requirement is phased in over a three year period: core capital of 3.20% of risk-weighted assets and total capital of 6.40% of risk-weighted assets is required through December 30, 1990, and core capital of 3.60% of risk-weighted assets and total capital of 7.20% of risk-weighted assets is required from December 31, 1990 through December 31, 1992, inclusive. Total capital includes core capital plus supplementary capital (except that includable supplementary capital may not exceed core capital). Supplementary capital includes: cumulative perpetual preferred stock; mutual capital, income capital and net worth certificates; nonwithdrawable accounts and pledged deposits to the extent not included in core capital; perpetual and mandatory convertible subordinated debt and maturing capital instruments meeting specified requirements; and general loan and lease loss allowances, up to a maximum of 1.25% of risk-weighted assets as of January 1, 1993 (1.50% of risk-weighted assets until December 31, 1992). A savings bank's risk-weighted assets is determined by multiplying the value of each of its assets by one of five risk-weighting factors which range from 0% to 200%.

At May 31, 1992, Pioneer's financial position required that it have core capital of $17.1 million, tangible capital of $8.5 million, and total capital of $22.3 million, half in the form of core capital. On that date, Pioneer had core and tangible capital of $55.8 million and total capital of $58.2 million, and as such was in compliance with the capital regulations. The following table sets forth the Bank's capital position under the tangible capital requirement, the leverage limit and the risk-based capital requirement and the amounts by which the Bank exceeds each of these requirements.

	At May 31, 1992,				
	Required Regulatory Capital			Capital	
	Ratio	Amount	Pioneer's Regulatory Capital	in Excess of Regulatory Requirement	Regulatory Capital Ratios
Tangible capital requirement	1.50%	$ 8,549	$55,763	$47,214	9.78%(1)
Leverage limit	3.00	17,098	55,763	38,665	9.78 (2)
Risk-based capital requirement:					
Currently required	7.20	22,316	58,150	35,834	18.76 (3)
Fully phased-in (December 31, 1992)	8.00	24,796	58,150	33,354	18.76

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(1) Tangible capital to tangible assets.
(2) Core capital to adjusted tangible assets.
(3) Risk-based capital to risk-weighted assets.

The Bank is required under regulations of the OTS to maintain an average daily balance of certain liquid investments equal to at least 5.0% of the sum of its average daily balance of net withdrawable deposits and borrowings payable on demand or in one year or less, of which short-term assets must consist of not less than 1.0%. It is the Bank's policy to maintain liquidity levels at or near the required minimum in order to maximize yield on alternative investments. At May 31, 1992, Pioneer was in compliance with these requirements, with an overall liquidity ratio of 5.33% and a short-term liquidity ratio of 5.09%.

The Bank's principal sources of funds are deposits, loan amortization and prepayments, maturities and sales of investment, mortgage-backed and short-term securities, and borrowings, including advances from the FHLB of Seattle and reverse repurchase agreements. While loan amortization and maturities of investment securities and short-term investments are a relatively predictable source of funds, deposit flows and loan prepayments are substantially influenced by general interest rates, economic conditions and competition. At May 31, 1992, Pioneer's unused line of credit for FHLB of Seattle advances was approximately $111.4 million. Member institutions of the FHLB of Seattle are required to pledge certain collateral to secure advances.

The Bank anticipates that it will have sufficient funds available to meet current commitments. At May 31, 1992, the Bank had outstanding mortgage loans in process of approximately $1.4 million, outstanding loan commitments of $21.8 million and unused home equity lines of credit of approximately $17.0 million. The Bank anticipates funding these outstanding commitments with normal sources of funds, such as loan repayments and savings deposits.

IMPACT OF INFLATION AND CHANGING PRICES

The unaudited Consolidated Financial Statements and Notes thereto presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Bank's operations. Unlike most industrial companies, the primary assets and liabilities of the Bank are monetary in nature. As a result, interest rates have a more significant impact on the Bank's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

The Bank is involved in routine legal proceedings in the ordinary course of its business which in the aggregate are believed by management to be immaterial to the financial condition of the Bank.

Item 2 - Changes in Securities

None

Item 5 - Other Information

None

Item 6 - Exhibits and Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIONEER FED BANCORP, INC.

Date: 7/8/92 By: ____________________
Lily K. Yao
President and Chief Executive Officer

Date: 7/8/92 By: ____________________
Albert M. Yamada
Senior Vice President, Secretary & Treasurer
(Principal Financial and Accounting Officer)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

92 18 4569

RECD S.E.C.
JUL 14 1992

QUARTERLY REPORT UNDER SECTION 13 ~~OR 15(d)~~
OF THE SECURITIES EXCHANGE ACT OF 1934

L92-2228

For Quarter Ended May 31, 1992 Commission File Number 0-12353

PROCESSED BY
15-153.H
JUL 17 1992

PLASMA-THERM, INC.
act name of registrant as specified in its charter)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

NEW JERSEY	04-2554632
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

1.5Q

9509 INTERNATIONAL COURT, ST. PETERSBURG, FLORIDA 33716
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code (813) 577-4999

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No_____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $.01 per share	8,083,561
Class	Outstanding at July 6, 1992

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PLASMA-THERM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	May 31, 1992 (unaudited)	November 30, 1991 (audited)
Current assets		
Cash and cash equivalents	$ 2,376,835	$ 2,146,832
Accounts receivable	1,859,324	2,973,089
Refundable income taxes	73,700	73,700
Inventories	4,966,009	4,235,625
Prepaid expenses and other	85,890	64,467
	9,361,758	9,493,713
Investment in non-consolidated subsidiary	1,589,371	1,604,202
Property and equipment, at cost		
Machinery and equipment	1,896,734	2,107,841
Transportation equipment	170,834	170,834
Leasehold improvements	808,022	803,210
	2,875,590	3,081,885
Less accumulated depreciation and amortization	1,540,315	1,377,963
	1,335,275	1,703,922
Other assets	235,435	22,033
	$12,521,839	$12,823,870

See accompanying notes to the consolidated financial statements.

PLASMA-THERM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES	May 31, 1992 (unaudited)	November 30, 1991 (audited)
Current liabilities		
Short-term borrowings	$ 113,749	$ 168,136
Current portion of long-term debt	377,804	427,039
Current portion of convertible debt	-	151,389
Accounts payable	751,662	1,062,510
Income taxes payable	97,323	-
Accrued expenses	549,623	521,813
Accrued payrol	238,894	238,293
Customer deposits	10,000	-
	2,139,055	2,569,180
Long-term debt		
Long-term debt, less current portion	495,316	675,618
SHAREHOLDERS' EQUITY		
Shareholders' equity		
Common stock $.01 par value Authorized - 12,000,000 shares Issued and outstanding - 8,075,561 shares-1992 and 7,990,261 shares-1991	80,757	79,903
Additional paid-in capital	8,744,360	8,756,926
Retained earnings	1,179,781	883,798
Cumulative translation adjustment	(117,430)	(141,555)
	9,887,468	9,579,072
	$12,521,839	$12,823,870

See accompanying notes to the consolidated financial statements.

PLASMA-THERM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
Net Sales	$ 3,914,315	$ 4,742,646	$ 8,122,857	$ 9,187,570
Costs and expenses				
Cost of products sold	2,323,967	3,052,251	4,845,115	5,663,611
Research & development	273,084	366,845	547,120	775,812
Selling & administrative	1,110,097	1,678,642	2,192,018	3,158,961
Interest expense	27,646	52,994	65,967	126,248
Other (income) expense, net	(14,335)	(24,145)	(577)	(54,300)
	3,720,459	5,126,587	7,649,643	9,670,332
Income (loss) before loss of non-consolidated subsidiary	193,856	(383,941)	473,214	(482,762)
Income (loss) of non-consolidated subsidiary	(367)	89,833	(100,231)	(158,920)
Income (loss) before income taxes	193,489	(294,108)	372,983	(641,682)
Income taxes (benefit)	34,500	(21,400)	77,000	(71,000)
Net income (loss)	$ 158,989	$(272,708)	$ 295,983	$(570,682)
Income (loss) per share	$ .02	$(.03)	$ .04	$(.07)
Weighted average number of shares outstanding	8,120,592	8,173,911	8,109,187	8,127,467

See accompanying notes to the consolidated financial statements.

PLASMA-THERM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended May 31	
	1992	1991
Cash flows from operating activities		
Net income (loss)	$ 295,983	$(570,682)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	246,065	402,103
Compensation	(44,494)	9,546
Other adjustments	20,000	(2,252)
Loss of non-consolidated subsidiary	100,231	158,920
Tax benefit allocated to non-consolidated subsidiary	(15,000)	(10,700)
Gain on sale of assets	(169,533)	-
Changes in assets and liabilities		
Decrease in accounts receivable	1,113,765	502,248
(Increase) in inventories	(730,384)	(517,366)
(Increase) in prepaid expenses and other	(21,423)	(198,032)
Decrease in accounts payable and accrued liabilities	(272,437)	(97,218)
Increase (decrease) in income taxes payable	97,321	(224,265)
Net cash provided (used) by operating activities	620,096	(547,698)
Cash flows from investing activities		
Capital expenditures	(46,235)	(100,077)
Increase in other assets	(213,402)	(5,852)
Sale of equipment	338,350	-
Net cash provided (used) in investing activities	78,713	(105,929)

Continued

PLASMA-THERM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

Cash flows from financing activities		
Proceeds from issuance of long-term debt	750,000	-
Payments of long-term debt	(1,130,926)	(491,928)
Net payments under line of credit agreements	(54,387)	(58,137)
Sale of common stock	32,781	10,934
Increase in investment in non-consolidated subsidiary	(66,400)	(663,212)
Net cash used in financing activities	(468,932)	(1,202,343)
Effect of exchange rate changes on cash	126	(26,458)
NET (INCREASE)DECREASE IN CASH	230,003	(1,882,428)
Cash at beginning of period	2,146,832	3,435,396
Cash at end of period	$2,376,835	$1,552,968

See accompanying notes to the consolidated finanacial statements.

PLASMA-THERM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1992 AND NOVEMBER 30, 1991

Note 1 In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of May 31, 1992 and November 30, 1991, the results of operations for the three months and six months ended May 31, 1992 and 1991 and the statements of cash flows for the six months ended May 31, 1992 and 1991.

The results of operations for the three months and six months ended May 31, 1992 and 1991 are not necessarily indicative of results for the full year.

While the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company's latest annual report on Form 10-K.

Note 2 The consolidated financial statements include the accounts of Plasma-Therm, Inc. (the Company) and its wholly owned domestic and foreign subsidiaries. All significant intercompany transactions and balances have been eliminated. On June 21, 1991, the Company's Board of Directors approved a plan to spin off the Company's RF Plasma Products, Inc. (RF Plasma) wholly-owned subsidiary to the shareholders of the Company, in the form of a tax free dividend. The Company has requested and received a ruling from the Internal Revenue Service that this distribution will not be taxable to the Company's shareholders.

PLASMA-THERM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1992 AND NOVEMBER 30, 1991

Note 2 (cont'd) The Company's investment in and the results of operations of RF Plasma are reflected in the Company's consolidated financial statements on the equity method as RF Plasma is now a temporary investment that the Company anticipates distributing to its shareholders during fiscal 1992. Prior year financial statements have been restated accordingly. As a part of the spin-off, approximately $1,915,000 of RF Plasma's indebtedness to the Company has been contributed as capital, subject to adjustment as defined by the parties. Summary financial information of RF Plasma is contained in note 5.

Note 3 Earnings (loss) per share is computed based on the weighted average number of shares of common stock, adjusted for the conversion of dilutive common stock equivalents. The assumed conversion of the previously outstanding convertible debt and outstanding warrants, if included in the computation of the fully diluted earnings per share, would be anti-dilutive.

Note 4 During the first half of fiscal 1992, options to purchase 85,300 shares of the Company's common stock were exercised under the Company's stock option plan. As a result, shareholders' equity increased by $32,781. Also, the Company's additional paid-in capital decreased by $44,494 due to the exercise of the options and the estimated compensation decrease incurred under the plan.

PLASMA-THERM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 1992 AND NOVEMBER 30, 1991

Note 5 Summary Financial Information of Unconsolidated Subsidiary and Affiliate Transactions

Condensed financial information for RF Plasma (note 2) consists of the following:

Statements of Operations - Unaudited

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
Net Sales	$ 2,150,525	$ 2,166,139	$ 4,161,097	$ 3,553,993
Costs and expenses	2,150,992	2,076,306	4,261,328	3,712,913
Income (loss) before income taxes	(367)	89,833	(100,231)	(158,920)
Income taxes (benefit) allocated by the parent	(6,300)	6,100	(15,000)	(10,700)
Net income (loss)	$ 5,933	$ 83,733	$(85,231)	$(148,220)

Balance Sheets

	May 31, 1992 (Unaudited)	November 30, 1991 (Audited)
Current assets	$ 2,989,986	$ 2,427,215
Fixed assets	197,530	222,263
Other	10,039	10,039
	3,197,555	2,659,517
Current liabilities	1,383,274	1,016,576
Long-term liabilities	224,910	38,739
Shareholder's equity	1,589,371	1,604,202
	$ 3,197,555	$ 2,659,517

In addition to the losses of RF Plasma, the Company has also contributed capital (note 2) of $66,400 and $859,624 in the six months ended May 31, 1992 and the year ended November 30, 1991, respectively.

Note 5
(cont'd)

Included in accounts receivable of the Company at May 31, 1992 and November 30, 1991 are net amounts due from RF Plasma of $2,988 and $18,471, respectively. Transactions with RF Plasma consist of the following:

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991
Sales to RF Plasma	$ 132,602	$ 150,289	253,551	$212,114
Purchases from RF Plasma	149,231	275,469	334,081	458,203

Included in other assets on the Company's balance sheet at May 31, 1992 is a note receivable due from RF Plasma of $200,000. The loan is to be repaid in equal monthly installments of $5,000 commencing May 1, 1993 through August 1, 1996. Interest at the prime rate plus 1% is to be paid monthly. The loan is secured by a lien on RF Plasma's inventory.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL POSITION, LIQUIDITY AND CAPITAL REQUIREMENTS

The Company's cash balance and working capital at May 31, 1992 increased by $230,000 and $298,000, respectively as compared to November 30, 1991. The changes in certain individual working capital components reveal (1) a reduction in accounts receivable due in part to lower current shipment levels; (2) a $730,000 inventory increase of which approximately $400,000 is earmarked for new internal laboratory systems; and (3) a reduction in trade payables of $272,000.

The Company used $435,000 to repay loans during the period, including the final payment on its convertible debts. As a result, the conversion rights attached to those loans were terminated, unexercised. In addition, the Company loaned its soon to be spun-off subsidiary, RF Plasma, $200,000 in the form of a long-term note secured by RF Plasma's inventory.

The Company has extensive ongoing capital requirements for research and development, the repayment of debt, capital equipment and inventory. The Company believes that its current cash reserves, together with working capital expected to be generated by operations and additional funds available under its line of credit, should be sufficient to meet its capital requirements for the immediate future.

Given the current weak economic conditions, management is closely monitoring overhead in an effort to keep it in line with revenue and to maintain sufficient working capital.

RESULTS OF OPERATIONS

Sales for the three months ended May 31, 1992 declined by $828,000 or 17%, as compared to the same period in fiscal 1991. For the six months ended May 31, 1992 revenues decreased by $1,065,000, or 12%, versus the first half of fiscal 1991. These decreases were primarily due to reduced unit shipments of large, high priced batch systems. Somewhat offsetting the lower 1992 revenues was an improved gross profit percentage in part due to design modifications which generated cost savings.

Despite the aforementioned sales decline, the Company in 1992 generated income before and after reflecting the losses of its non-consolidated subsidiary. In fiscal 1991 the comparable before and after figures were losses. The vastly improved 1992 performance is attributable to a significant reduction in overhead initiated in the latter part of 1991.

Also contributing to the higher 1991 overhead were the operating costs of the Company's European operation. Beginning in the second half of 1991, that operation was downsized. Accordingly, the fiscal 1992 periods reflect reduced costs for that operation as compared to fiscal 1991.

Comparable operating results for the non-consolidated subsidiary reveal reduced 1992 losses. The improvement results from a 17% increase in sales which was somewhat offset by increased administrative expenses, including costs associated with the pending spin-off.

Primarily due to tax credit carryforwards of approximately $582,000 for tax purposes as of November 30, 1991, the Company's effective federal tax rate is below the statutory rate.

The Financial Accounting Standards Board has issued a new statement "Accounting for Income Taxes", which the Company must adopt by its fiscal year 1994. At the present time, the Company is undecided as to when it will adopt the new statement. The impact on the financial statements has not been determined.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits .... N/A

(b) No reports on Form 8-K were filed during the second quarter of fiscal 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PLASMA-THERM, INC.

Dated: July 13, 1992

Ronald H Deferrari

Ronald H. Deferrari, President and
Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

MQ2-2228

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 1992

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ____________ to ____________

PROCESSED BY
19-19=2
MAY 15 1992

Commission file number 000-18448

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

SALVATORI OPHTHALMICS, INC
(Exact name of registrant as specified in its charter)

FLORIDA
(State or other jurisdiction of incorporation or organization)

59-2624130
(I.R.S. Employer Identification No.)

6416 PARKLAND DRIVE, SARASOTA, FLORIDA 34243
(Address of principal executive offices) (Zip Code)

(813) 753 - 0383
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes (X) No( )

The number of shares outstanding of the registrants Common Stock, par value $0.05 per share, at April 30,1992 was 1,095,972 shares.

BEST COPY AVAILABLE

PART I

ITEM 1. FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31,1992

(Unaudited)

(Begins on the following page)

SALVATORI OPHTHALMICS, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 1992 (Unaudited)	December 31, 1991
Current assets:		
Cash and cash equivalents	$ 96,619	$ 301,997
Accounts receivable, less allowance for doubtful accounts of $132,322 ($64,000 at 1990)	587,745	622,720
Inventories, at lower of cost (first in, first-out) or market	514,218	473,971
Other current assets	67,815	73,654
Total current assets	1,266,397	1,472,342
Property and equipment at cost:		
Land	50,000	50,000
Buildings and improvements	205,000	205,000
Laboratory Equipment	914,352	912,837
Office equipment	322,798	322,798
Leasehold improvements	64,807	64,807
	1,556,957	1,555,442
Less accumulated depreciation	611,033	570,309
	945,924	985,133
Other assets:		
Cost in excess of fair value of assets acquired	475,102	497,602
Deferred loan costs	75,000	75,000
	550,102	572,602
Less accumulated amortization	97,054	112,079
	453,048	460,423
Other	27,638	29,577
	480,686	490,000
	$ 2,693,007	$ 2,947,475

The accompanying notes are an integral part of these financial statements.

SALVATORI OPHTHALMICS, INC.

CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 1992 (Unaudited)	December 31, 1991
Current liabilities:		
Accounts Payable	$ 328,316	$ 334,010
Accrued Expenses	557,479	577,313
Current Maturities of long term debt and obligation under capital lease	42,654	47,379
Total current liabilities	928,449	958,702
Long term debt;		
Notes payable to stockholders	573,750	573,750
Obligation under capital lease	133,971	151,856
Long term debt other	46,906	37,204
Total long term debt	754,627	762,810
Deferred rent	53,853	53,853
Commitments and contingencies (Note 3)		
Stockholders' equity		
Common stock, $.05 par value, 20,000,000 shares authorized: 1,108,072 shares issued	54,404	54,404
Capital in excess of par value	3,948,058	3,948,058
Accumulated deficit	(3,041,649)	(2,825,617)
Less: Treasury stock at cost (12,100 shares)	(4,735)	(4,735)
Total stockholders' equity	956,078	1,172,110
	$ 2,693,007	$ 2,947,475

The accompanying notes are an integral part of these financial statements.

SALVATORI OPHTHALMICS.INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
(Unaudited)

Three Months Ended March 31,1992 and 1991

	1992	1991
Sales	$ 1,135,101	$ 1,253,452
Cost of Sales	564,084	715,239
Gross Profit	571,017	538,213
Selling expenses	237,544	237,254
Marketing expenses	31,097	30,428
Research and development	33,730	36,425
General and administrative expenses	476,412	456,919
Operating loss	(207,766)	(222,813)
Interest Expense	(15,884)	(8,081)
Other Income	7,617	12,334
Loss before income taxes	(216,033)	(218,560)
Income taxes	---	1,000
Net loss	(216,033)	(219,560)
Accumulated deficit at beginning of period	(2,825,616)	(1,575,520)
Accumulated deficit at end of period	(3,041,649)	$ (1,795,080)
Net loss per common share	$ (0.18)	$ (0.20)
Weighted average shares outstanding	1,095,972	1,075,972

The accompanying notes are an integral part of these financial statements

SALVATORI OPHTHALMICS, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three Months Ended March 31, 1992 and 1991

	1992	1991
Cash flows from operating activities:		
Cash received from customers	$ 1,180,014	$ 1,281,411
Cash paid to suppliers and employees	(1,356,214)	(1,400,282)
Interest received	1,752	3,910
Interest paid	(15,884)	(8,081)
Net cash provided by (used in) operating activities	(190,332)	(123,042)
Cash flows from investing activities:		
Payments for purchases of property and equipment	(1,515)	(18,269)
Net cash used in investing activities	(1,515)	(18,269)
Cash flows from financing activities:		
Principal payments on long term debt	(13,531)	(23,298)
Net cash used in financing activities	(13,531)	(23,298)
Net decrease in cash and cash equivalents	(205,378)	(164,609)
Cash and cash equivalents at beginning of period	301,997	477,950
Cash and cash equivalents at end of period	$ 96,619	$ 313,341

The accompanying notes are an integral part of these financial statements.

SALVATORI OPHTHALMICS, INC

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

Three Months Ended March 31, 1992 and 1991

	1992	1991
Reconciliation of net loss to net cash provided by (used in) operating activities:		
Net loss	$(216,033)	$ (219,560)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	31,319	36,679
Amortization	10,548	3,526
Allocation of deferred costs to the current period	623	5,259
Loss on disposal of fixed assets	9,405	--
Additions to cost in excess of fair value	(1 234)	--
Provision for losses on accounts receivable	5,420	2,945
Common stock issuable to officer	--	50,000
Accretion on interest on liability for purchase of stock	--	4,234
Change in operating assets and liabilities:		
Decrease in accounts receivable	29,555	25,014
Increase in inventories	(40,247)	(88,497)
Decrease (Increase) in other current assets	5,839	10,404
Decrease in accounts payable	(5,694)	34,939
Increase (decrease) in accrued expenses	(19,834)	(2,781)
Increase (decrease) in deferred rent	--	14,706
	25,701	96,518
Net cash provided by (used in) operating activities	$ (190,332)	$ (123,042)

The accompanying notes are an integral part of these financial statements.

SALVATORI OPHTHALMICS, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 1992 and 1991

1. Significant accounting policies

(a) Basis of presentation and disclosures included

The consolidated balance sheet as of March 31,1992, and the related consolidated statements of operations and accumulated deficit for the three-month periods ended March 31,1992 and 1991 and the consolidated statements of cash flows for the three month periods ended March 31, 1992 and 1991 are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim Results are not necessarily indicative of results for a full year.

The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the company's annual financial statements and notes.

(b) Financial statement reclassifications

Certain amounts have been reclassified in the Balance Sheets, Statement of Operations and Accumulated Deficit for the three months ended March 31, 1991 in order to conform to the current period presentation.

2. Inventories

Inventories consist of the following:

	March 31, 1992 (Unaudited)	December 31, 1991
Raw Materials	$ 220,286	$ 125,385
Work in process	54,212	55,073
Finished goods	239,720	315,255
	$ 514,218	$ 495,713

3. Contingencies

1989 Bonus Plan

During March 1989, the Board of Directors approved the 1989 Bonus Plan (the "Plan"). The plan provides for a bonus payable no earlier than December 31,1989 to certain salaried employees who agreed to take reduced salaries during 1989. The bonus would be payable in the first month following two successive calendar quarters during which the company has income before income tax of at least $100,000 in each of the two successive quarters. This condition for payment of the bonus has not been met as of March 31,1992, and accordingly , a liability has not been recorded. The bonus consists of a onetime cash payment to the employee equal to 110% of the salary reduction for the year ended December 31, 1989. The estimated liability that will result should the bonus become payable will be $48,000. In addition, Participants of the Plan received a five year stock option entitling the employee to acquire 0.8 shares of common stock for each $1 in 1989 salary reduction. The stock options are exercisable at a price of $6.25 per share and expire on December 31, 1994. The number of shares of common stock subject to the options, all of which are exercisable as of March 31, 1992, are 3,519.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations - Three Months Ended March 31,1992 Compared to Three Months Ended March 31,1991

Sales declined 9.4% in total for the first quarter of 1992 compared to the same period in 1991. Sales of RGP (rigid gas permeable) contact lenses for the first quarter of 1992 declined 15% to $702,339 compared to sales of $828,730 for the same period in 1991. Sales of soft lenses and solutions increased 2% to $433,000 for the 1992 period compared to $424,000 for the 1991 period.

Management believes that the decline in sales experienced during the 1992 period compared to the 1991 period results from the general economic recession in the United States during the current period. In addition, the advent of disposable lenses, the only industry growth segment, has had the continuing effect of slowing the growth of sales of the other market segments, including the market for the Company's rigid gas permeable and specialty lenses.

Cost of sales decreased to $564,084 or 50% of sales for the 1992 period compared to $715,239 or 57% of sales for the 1991 period. Management believes the decline in cost of sales results from the improved production efficiency of the new manufacturing facility moved into last year, and the upgraded manufacturing equipment, most notably two DAC fully automated lathes, acquired during the latter part of last year.

Other operating expenses, including selling, marketing,research and development and general and administrative expenses, increased by $18,000 or 2% to a total of $779,000 for the 1992 period compared to $761,000 for the 1991 period. Most of the increase was attributable to general and administrative expenses. Other operating expenses for the period totaled 69% of sales for 1992 compared to 61% of sales for 1991.

Financial Condition

Cash and cash equivalents declined by $205,378 for the three months ended March 31,1992 to a balance of $96,619 at the end of the quarter. The decline in cash resulted primarily from cash used in operating activities of $190,332 caused by a net loss for the period. In addition, $53,852 was used to reduce trade payables and $11,923 was used to make principal payments on long term debt.

Working capital at March 31,1992 totaled $348,551 compared to $504,650 at December 31,1991. On September 16,1991, the company completed a debt financing agreement with Tullis - Dickerson Capital Focus L.P. ("Tullis - Dickerson") that consists of a $510,000 three year term loan and a $190,000 revolving line - of - credit. The line of credit proceeds, if drawn, would be used to provide additional working capital.

In addition to the unused $190,000 line of credit available from Tullis - Dickerson, management of the Company has instituted several programs intended to improve the cash flow and maintain an adequate cash balance to support the operations of the Company. These programs include delaying all capital expenditures not required to support production and a salary and wage reduction plan that was implemented on January 2, 1992. Management has also implemented more stringent controls over areas of the Company's operations that directly impact cash flows, including monitoring inventory levels to avoid any excess investment in inventory, collection procedures designed to decrease the accounts receivable collection period and more careful monitoring of operating expenses. Management believes that the Company has adequate funding sources to meet its current obligations.

PART II

ITEM 2. CHANGES IN SECURITIES

On January 24,1992, the Board of Directors, and the holders of a majority of the shares of the Company's common stock acting by written consent effective as of February 20,1992, approved a 1 for 5 share reverse stock split of the Company's common stock, $0.01 par value, that was effective on February 28, 1992. In connection therewith, the Articles of Incorporation were amended to change the par value of the Company's common stock from $0.01 per share to $0.05 per share. All references to shares and related share amounts have been retroactively restated for all periods presented.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On February 20,1992, action was taken by written consent of the holders of a majority of the shares of common stock, $0.01 par value, to amend the Articles of Incorporation to recapitalize the Company by changing the par value of the Company's common stock from $0.01 per share to $0.05 per share. The holders of 787,494 shares of common stock, $0.01 par value,a majority of the shares issued and outstanding, consented to the action. This action was taken in connection with the 1 for 5 reverse split of the Company's common stock, $0.01 par value, effective February 28,1992. Written notice of this action was given to the other shareholders of the Company within ten days thereafter.

ITEM 5. OTHER INFORMATION

On February 14,1992, Bonnie R. Leetmaa, Ph.D., resigned as the president, Cheif Operating Officer and a director of the Company, and David J. Dougherty was elected to serve as President during Dr. Leetmaa's unexpired term. The Company announced that it was discontinuing the use of the designations "Cheif Executive Officer" and "Cheif Operating Officer"

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

INDEX TO EXHIBITS

Exhibit No.	Exhibit	Sequential Page No.
11.1	Computation of earnings per share, March 31, 1992, and 1991	15
3.1	Articles of Amendment	16

(b) Reports on Form 8-K

During the period ended March 31,1991 there was one report on Form 8-K filed on February 11,1992. This filing reported the merging of the operations of the wholly owned subsidiary Wolcon Laboratories, Inc. with those of Salvatori. There were no financial statements filed with this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Salvatori Ophthalmics, Inc.

Date: May 13, 1992

By: David J Dougherty
David J. Dougherty, Chairman of the Board and President

Date: May 13, 1992

By:
Joseph A. Arena, Director of Finance and Treasurer

Exhibit 11.1

SALVATORI OPHTHALMICS, INC
COMPUTATION OF EARNINGS PER SHARE (a)
(Unaudited)
Three Months Ended March 31,1992 and 1991

	1992	1991
Net Loss	$ (216,033)	$ (219,560)
Common Stock:		
Weighted average shares outstanding	1,095,972	1,075,972
Dilutive effect of outstanding options and warrants (as determined by the application of the treasury stock method)	78,596	13,513
	1,174,568	1,089,485
Net Loss per common share	$ (0.18)	$ (0.20)

(a) This calculation is submitted in accordance with Regulation S - K item 601(b)(11) although it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an anti - dilutive result.

Exhibit 3.1

ARTICLES OF AMENDMENT

OF

SALVATORI OPHTHALMICS, INC.

Salvatori Ophthalmics, Inc., a Florida corporation (the "Corporation"), amended its Articles of Incorporation effective as of the close of business on February 28, 1992, by striking Article III in its entirety and by substituting in its place the following:

ARTICLE III
CAPITAL STOCK

> This Corporation is authorized to issue twenty million (20,000,000) shares of common stock, par value five cents ($0.05) per share.

Each person who, at the close of business on February 28, 1992 (the "Effective Date"), is the holder of shares of common stock of the Corporation, par value $0.01 per share ("Old Shares"), shall, for each five Old Shares held on the Effective Date, be deemed to hold one share of common stock, par value $0.05 per share ("New Share"), after Effective Date. A certificate evidencing Old Shares prior to the Effective Date shall, after the Effective Date, be deemed to evidence the number of New Shares determined by multiplying by 0.2 the number of Old Shares stated on the certificate. The holder of a certificate evidencing Old Shares shall have the right, after the Effective Date, to exchange the certificate for a certificate evidencing the appropriate number of New Shares. No fractional New Shares shall be issued. The number of New Shares issuable to a holder shall be rounded to the nearest whole number of New Shares. Whenever the number of New Shares is rounded to the next lower whole number, the holder shall be entitled, in accordance with reasonable procedures established by the Corporation, to be paid cash for the fractional interest, in an amount based upon the average of the bid and asked prices of the common stock of the Corporation as quoted by the National Association of Securities Dealers Automated Quotation System as of the Effective Date.

The amendment was approved on February 20, 1992 by written consent of the holders of a majority of the shares of common stock, $0.01 par value, of the Corporation. Only holders of shares of common stock, $0.01 par value, were entitled to vote on the amendment. Approval by the holders of a majority of the issued and outstanding shares of common stock, $0.01 par value, was sufficient for approval.

IN WITNESS WHEREOF, the President has executed these Articles of Amendment this 21st day of February, 1992.

David J Dougherty
David J. Dougherty
President

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For Quarter En. 1, 1992 Commission File Number 0-19088

SCIGENICS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-3113567
(I.R.S. Employer Identification No.)

87 CambridgePark Drive, Cambridge, MA
(Address of principal executive offices)

02140
(zip code)

PROCESSED BY
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Registrant's telephone number, including area code (617) 876-1170

None
(Former name, former address and former fiscal year if changed since last

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Q-Data Corp. - St. Petersburg, FL

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No______

2,090,909 shares of Common Stock, par value $.01 were outstanding on July 6, 1992.

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This is page 1 of 13

SCIGENICS, INC.

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Statement of Cash Flows for the Three and Six Months Ended May 31, 1992, for the Period March 1, 1991 (Date of Inception) Through May 31, 1991 and Cumulative from Inception 3

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SCIGENICS, INC.
(A Development Stage Enterprise)
BALANCE SHEETS
AS OF MAY 31, 1992 AND NOVEMBER 30, 1991

(In thousands except share data)

ASSETS

	May 31, 1992 (unaudited)	November 30, 1991
CURRENT ASSETS:		
Cash and cash equivalents	$14,078	$22,397
Marketable securities	8,622	5,892
Prepaid research and development costs	277	-
Other current assets	206	223
Total Current Assets	$23,183	$28,512

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31, 1992 (unaudited)	November 30, 1991
CURRENT LIABILITIES:		
Accounts payable to Genetics Institute, Inc.	$ -	$ 189
Accrued expenses	53	143
Total Current Liabilities	53	332
LONG-TERM DEBT (Note 3)	-	-
SHAREHOLDERS' EQUITY (Note 3):		
Callable common stock, par value $.01; authorized 2,500,000 shares; issued and outstanding 2,090,909 shares	21	21
Additional paid-in capital	41,974	41,974
Accumulated deficit	(18,865)	(13,815)
Total Shareholders' Equity	23,130	28,180
Total Liabilities and Shareholders' Equity	$23,183	$28,512

The accompanying notes are an integral part of these financial statements.

SCIGENICS, INC.
(A Development Stage Enterprise)
STATEMENTS OF OPERATIONS

(unaudited - in thousands except share data)

	Three Months Ended May 31, 1992	For the Period March 1, 1991 (Date of Inception) Through May 31, 1991	Six Months Ended May 31, 1992	Cumulative from Inception (March 1, 1991)
Interest income	$ 315	$ -	$ 672	$ 1,646
Costs and expenses (Note 3):				
License fee	-	2,500	-	2,500
Research and development expenses	3,411	1,724	5,530	17,557
General and administrative expenses	97	-	192	454
Total operating expenses	3,508	4,224	5,722	20,511
Net loss	$ (3,193)	$ (4,224)	$ (5,050)	$ (18,865)
Net loss per callable common share	$ (1.53)	$ (2.02)	$ (2.42)	$ (9.02)
Weighted average callable common shares outstanding	2,090,909	2,090,909	2,090,909	2,090,909

The accompanying notes are an integral part of these financial statements.

SCIGENICS, INC.
(A Development Stage Enterprise)
STATEMENTS OF CASH FLOWS

(unaudited - in thousands)

	Six Months Ended May 31, 1992	For the Period March 1, 1991 (Date of Inception) through May 31, 1991	Cumulative From Inception (March 1, 1991)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (5,050)	$ (4,224)	$ (18,865)
Changes in assets and liabilities-			
Prepaid research and development costs	(277)	-	(277)
Other current assets	17	-	(206)
Accounts payable to Genetics Institute, Inc.	(189)	172	-
Accrued expenses	(90)	802	53
Total Adjustments	(539)	974	(430)
Net cash used by operating activities	(5,589)	(3,250)	(19,295)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of marketable securities	(3,000)	-	(8,892)
Proceeds from sale of marketable securities	270	-	270
Net cash used in investing activities	(2,730)	-	(8,622)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock offering, net	-	42,035	41,995
Net (decrease) increase in cash and cash equivalents	(8,319)	38,785	14,078
Cash and cash equivalents, beginning of period	22,397	-	-
Cash and cash equivalents, end of period	$ 14,078	$ 38,785	$ 14,078

The accompanying notes are an integral part of these financial statements.

SCIGENICS, INC.
(A Development Stage Enterprise)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1992
(unaudited)

1. Basis of Presentation

SciGenics, Inc. (the "Company") was incorporated on March 1, 1991. The Company commenced operations on May 31, 1991, to engage in the clinical evaluation and continued development of recombinant human macrophage colony stimulating factor ("M-CSF") in North America and early stage research and development of embryonic growth and regulatory proteins ("EGRP Factors") worldwide (together, the "Programs").

The Company is classified as a development stage enterprise. The Company will experience significant losses as substantially all of the net proceeds of the public offering will be spent to fund the Programs. It is anticipated that the Company will not receive any significant revenues unless and until either (i) Genetics Institute, Inc. ("Genetics Institute") exercises one of the Program Purchase Options (Note 3) or (ii) to the extent that Genetics Institute does not exercise the Program Purchase Option, the Company successfully commercializes such products.

The balance sheet as of May 31, 1992 and the statement of operations for the three and six months ended May 31, 1992, for the period March 1, 1991 (date of inception) through May 31, 1991 and cumulative from inception and the statement of cash flows for the six months ended May 31, 1992, for the period March 1, 1991 (date of inception) through May 31, 1991 and cumulative from inception are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of these financial statements have been included. Such adjustments consist only of normal recurring items. The financial statements should be read in conjunction with the Company's audited financial statements and related footnotes for the period March 1, 1991 (date of inception) through November 30, 1991.

2. Initial Public Offering

On May 31, 1991 the Company sold 2,090,909 units consisting of one share of the Company's callable common stock and a warrant to purchase one share of Genetics Institute common stock (the "Units"). This resulted in net proceeds to the Company of approximately $42.0 million. Substantially all of the proceeds from the sale will be used to fund research and development activities conducted by Genetics Institute involving M-CSF and EGRP Factors. The shares of callable common stock of the Company are subject to a Stock Purchase Option Agreement (defined in note 3) pursuant to which Genetics Institute may purchase all (but not less than all) of such shares from holders thereof at stated exercise prices, which increase over time, until expiration of the option on February 28, 1995 (subject to extension through May 31, 1996 in certain circumstances).

On September 19, 1991, Genetics Institute entered into an Agreement and Plan of Merger, (the "Merger Agreement") with American Home Products Corporation, a Delaware corporation ("AHP"), AHP Biotech Holdings, Inc., a Delaware corporation and an indirect wholly owned subsidiary of AHP, and AHP Merger Subsidiary Corporation, a Delaware corporation and a wholly owned subsidiary of AHP Biotech Holdings, Inc. On January 16, 1992, at a Special Meeting of Stockholders of Genetics Institute, the holders of common stock of Genetics Institute approved the Merger Agreement. The execution and delivery by Genetics Institute of the Merger Agreement constituted an "Acceleration Event" under the terms of the Warrant Agreement, dated as of May 23, 1991, between Genetics Institute and the First National Bank of Boston pursuant to which the warrants to purchase shares of common stock of Genetics Institute (the "Warrants") were issued as part of the Units. From and after September 19, 1991, the Warrants could be sold or transferred separate and apart from the shares of callable common stock of the Company that formed part of the Units.

3. Agreements and Relationship with Genetics Institute

Development Agreement

The Company has an agreement (the "Development Agreement") with Genetics Institute, under which the Company is obligated to reimburse Genetics Institute for certain of its costs of conducting research and development of the Company's products, M-CSF and EGRP Factors, including $5.5 million incurred by Genetics Institute during the six months ended May 31, 1992.

Most of the expenses being incurred under the Development Agreement relate to the M-CSF program. M-CSF, a white blood cell growth factor, continues to be evaluated for its potential uses as an agent for the treatment of cancer, infectious disease and elevated cholesterol. M-CSF has now been evaluated in early clinical studies in over 150 cancer patients. Although no significant overall clinical response has yet been observed in these studies, the Company is continuing to test M-CSF in several new cancer studies in order to better assess its potential application in this field of therapy. If these new studies do not show promising results, it is likely that the Company will cease to explore the potential uses of M-CSF in the field of cancer therapy.

Clinical evaluation of M-CSF in other indications is just beginning. The first clinical testing of M-CSF in an infectious disease indication has recently been initiated in patients suffering from bacterial infections associated with AIDS. The Company also plans to initiate clinical trials of M-CSF in patients suffering from a severe form of acutely high cholesterol levels as the first step in evaluating its potential as a cholesterol lowering agent.

Given the anticipated timing and scope of the clinical studies and follow-up studies planned for the next several months, the Company feels it is unlikely that M-CSF will enter large-scale Phase II or Phase III clinical evaluation in any indication before mid-1993.

As of December 1, 1991, Genetics Institute began paying the sum of $1.00 toward development and clinical trials conducted in the M-CSF program for each $1.00 paid by the Company to Genetics Institute under the Development Agreement up to a maximum of $20.0 million (the "Funding Commitment"). Genetics Institute may terminate the Funding Commitment, in which event, the Program Purchase Option (as defined below) with respect to the M-CSF program and the Stock Purchase Option (also defined below) will terminate. Assuming that the Funding Commitment is not terminated, it is expected that the amounts payable by the Company to Genetics Institute under the Development Agreement will be fully expended by November 30, 1994. Substantial additional funds will be required to complete the research and development of and to commercialize M-CSF and the EGRP Factors.

Technology License Agreement

The Company has an agreement (the "Technology License Agreement") with Genetics Institute under which Genetics Institute granted to the Company an exclusive right and license to certain patent and technology rights for the research, development, use, manufacture and sale of M-CSF in North America and EGRP Factors worldwide for all purposes other than for the inducement, formation, growth, repair, regeneration or treatment of human or animal bone or cartilage.

SCIGENICS, INC.
(A Development Stage Enterprise)
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1992
(unaudited)

Stock Purchase Option Agreement

The shares of callable common stock outstanding are subject to an agreement (the "Stock Purchase Option Agreement") pursuant to which Genetics Institute may purchase all, but not less than all, of such shares of callable common stock from the holders thereof at stated exercise prices (the "Stock Purchase Option"), subject to certain adjustments, which increase over time, until expiration of the option on February 28, 1995. The Stock Purchase Option may be extended through no later than May 31, 1996 if and so long as Genetics Institute continues to fund the Programs. The Stock Purchase Option exercise price may be paid in cash, in shares of Genetics Institute common stock, or in any combination thereof, at Genetics Institute's discretion, generally within 60 days after exercise of the Stock Purchase Option. The exercise periods and related payment that must be made to exercise the Stock Purchase Option are as follows:

Exercise Period	Payment Per Share (2)
On or before May 31,1993	$33.48
From June 1, 1993 to May 31, 1994	41.61
From June 1, 1994 to May 31, 1995 (1)	54.04
From June 1, 1995 to May 31, 1996 (1)	69.83

(1) Continuation of the Stock Purchase Option after February 28, 1995 is contingent upon the continued funding of the Programs by Genetics Institute if, as expected, the amounts payable by the Company under the Development Agreement have been fully expended.

(2) From and after the exercise of either program purchase option, the aggregate Stock Purchase Option exercise prices shall be adjusted by deducting amounts (including benchmark payments) paid to the Company pursuant to the exercise of the program purchase price.

Program Purchase Option Agreement

The Company granted to Genetics Institute an option to purchase either or both of the Company's programs at stated exercise prices, which increase over time, until expiration of the option on February 28, 1995 (the "Program Purchase Option"). The Program Purchase Option may be extended through no later than May 31, 1996 if and so long as Genetics Institute continues to fund the Programs. If Genetics Institute exercises the Program Purchase Option for either program, its Program Purchase Option for the remaining program shall terminate; however, the Stock Purchase Option, with an adjusted stock option exercise price, will remain in effect. The Program Purchase Option exercise price may be paid in cash, in shares of Genetics Institute common stock, or any combination thereof, at Genetics Institute's discretion, generally within 60 days after exercise of the program's purchase option. The exercise periods and Program Purchase Option exercise price for each program are as follows:

Exercise Period	Program Purchase Exercise Price M-CSF	Program Purchase Exercise Price EGRP
On or before May 31, 1993	$ 57,500,000	$ 28,750,000
From June 1, 1993 to May 31, 1994	78,200,000	34,500,000
From June 1, 1994 to May 31, 1995 (1)	103,500,000	40,250,000
From June 1, 1995 to May 31, 1996 (1)	131,100,000	46,000,000

(1) Continuation of the Program Purchase Option for each program after February 28, 1995 is contingent upon the continued funding of such program by Genetics Institute if, as expected, the amounts payable by the Company under the Development Agreement have been fully expended.

If Genetics Institute exercises the Program Purchase Option for the EGRP program, Genetics Institute shall pay to the Company, in addition to the applicable amount set forth above, $4.0 million (a benchmark payment) for each EGRP Factor which is identified by Genetics Institute prior to November 30, 1996 and which enters Phase I clinical trials prior to November 30, 2001, provided that (i) no such benchmark payment shall be payable with respect to the first of such EGRP Factors which enters Phase I clinical trials and (ii) the maximum aggregate of benchmark payments required to be paid by Genetics Institute shall be $20.0 million. In the event that Genetics Institute exercises the Stock Purchase Option, no further benchmark payments are required to be made. The program purchase exercise price and any benchmark payment may be paid in cash, in shares of Genetics Institute common stock, or in any combination thereof, at Genetics Institute's discretion. Such payments may, but are not required to be used for the further development of the Programs.

Services Agreement

The Company has an agreement (the "Services Agreement") with Genetics Institute, pursuant to which Genetics Institute has agreed to provide certain services, including financial, legal and administrative services, to the Company on a fully burdened cost reimbursement basis.

Long Term Debt

The Company has issued a Promissory Note (the "Note") in the principal amount of $100 to Genetics Institute. The Note is due on the day following termination of the Stock Purchase Option Agreement and may not be prepaid. While the Note is outstanding, Genetics Institute has the right to elect the maximum number of directors constituting a minority of the members of the Company's Board of Directors and the Company may not issue additional capital stock, borrow more than $1.0 million in the aggregate, declare or pay dividends utilizing funds committed to be paid to Genetics Institute under the Development Agreement or Technology Licensing Agreement, merge, liquidate or sell all or substantially all of its assets without the approval of Genetics Institute.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

SciGenics, Inc. commenced operations on May 31, 1991 and received approximately $42.0 million upon issuance of 2,090,909 shares of its callable common stock and warrants to purchase 2,090,909 shares of Genetics Institute common stock. The Company expects to use substantially all of the net proceeds from this offering to engage Genetics Institute to conduct clinical evaluation and continued development of M-CSF and early stage research and development of EGRP Factors.

The Company's shares of callable common stock are subject to an option (the "Stock Purchase Option") pursuant to which Genetics Institute may purchase all (but not less than all) of such shares from the holders thereof at stated exercise prices, which increase over time, until expiration of the option on February 28, 1995. Genetics Institute also has the option to acquire all technology and related rights of the Company under either or both of the programs (the "Program Purchase Option").

Significant volatility has been associated with the business and operations of biopharmaceutical companies. Announcements by the Company or its competitors concerning technological innovations, new commercial products, results of clinical trials, developments concerning patents or proprietary rights, results of litigation, the expense and time associated with obtaining requisite government approvals, and public concern as to the safety of biopharmaceuticals may have a significant impact on the Company's business.

Results of Operations

Three and Six Months Ended May 31, 1992. The Company's net loss for the three and six months ended May 31, 1992 was $3.2 million and $5.1 million or $1.53 and $2.42 per callable common share, respectively as compared to $4.2 million or $2.02 per callable common share for the period March 1, 1991 (date of inception) through May 31, 1991. These losses consist primarily of expenses incurred under the Development Agreement offset in part by interest income. Future results are expected to reflect lower interest income as the available cash and marketable securities are used to fund operations.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes". The Company intends to adopt the new standard before November 30, 1994, but has not yet determined the timing or method to be used in adoption. The Company does not expect the new standard to have a significant impact on future operations.

Liquidity and Capital Resources

It is expected that the proceeds of the Company's public offering will be exhausted in 1994. As of December 1, 1991, Genetics Institute began paying the sum of $1.00 toward development and clinical trials conducted in the M-CSF program for each $1.00 paid by the Company to Genetics Institute under the Development Agreement up to a maximum of $20.0 million (the "Funding Commitment"). Genetics Institute may terminate the Funding Commitment, in which event, the Program Purchase Option with respect to the M-CSF program and the Stock Purchase Option will terminate. Assuming that the Funding Commitment is not terminated, it is expected that the amounts payable by the Company to Genetics Institute under the Development Agreement will be fully expended in 1994. Substantial additional funds are expected to be required to complete the development of and to commercialize M-CSF and to complete research, development and commercialization of any EGRP Factors. If Genetics Institute does not exercise the Stock Purchase Option, and to the extent Genetics Institute does not exercise any of the Program Purchase Options, the Company will need to find other ways to commercialize the products. If Genetics Institute's Funding Commitment is terminated, the proceeds of the Company's public offering could be exhausted substantially sooner than 1994. In any event, there can be no assurance that additional funding will be available to the Company on acceptable terms, if at all.

The Company will experience significant losses, as substantially all of the net proceeds of the public offering are expected to be spent to fund the programs. It is anticipated that the Company will not receive any significant revenues unless and until either (i) Genetics Institute exercises one of the Program Purchase Options or, (ii) to the extent that Genetics Institute does not exercise either Program Purchase Option, the Company successfully commercializes its products.

Part II - Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) No exhibits are filed herewith.

(b) No reports on Form 8-K were filed by the registrant during the first and second fiscal quarters ended May 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCIGENICS, INC.
(Registrant)

Date: July 10, 1992

/s/ Gabriel Schmergel
Gabriel Schmergel, Chairman
(Principal Executive Officer)

Date: July 10, 1992

/s/ Garen G. Bohlin
Garen G. Bohlin,
Vice President and Secretary,
(Principal Financial Officer and
Principal Accounting Officer)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

092-2228

For Quarter Ended May 31, 1992 Commission File No. 0-9301

SCIMED Life Systems, Inc.

ta
(State or diction of
incorporat anization)

41-0990065
I.R.S. Employer Identification #

PROCESSED BY
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6655 Wedgwood Road, Maple Grove, MN 55311
(Address of principal executive offices) (Zip

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Registrant's telephone number, including area code (612) 420-0700

N/A
(Former name, address, and/or fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 2, 1992
Common Stock ($.05 Par Value)	15,006,193 shares

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SCIMED Life Systems, Inc.

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SCIMED Life Systems, Inc.

Consolidated Statements of Earnings

(Unaudited)

	Three Months Ended May 31	
	1992	1991
Net Sales	$51,265,000	$41,950,000
Cost of Sales	10,942,000	9,136,000
Gross Profit	40,323,000	32,814,000
Operating Expenses:		
Selling, General and Administrative	15,182,000	12,299,000
Royalties	5,181,000	143,000
Research & Development	4,048,000	2,546,000
Operating Profit	15,912,000	17,826,000
Interest Income	875,000	896,000
Interest Expense	254,000	--
Other Income, net	22,000	22,000
Earnings Before Income Taxes	16,555,000	18,744,000
Income Taxes	5,877,000	6,841,000
Net Earnings	$10,678,000	$11,903,000
Earnings Per Share (Note A)	$ .70	$ .78
Weighted Average Number of Common and Common Equivalent Shares Outstanding	15,238,000	15,166,000

See notes to consolidated financial statements.

SCIMED Life Systems, Inc.

Consolidated Balance Sheets

	May 31 1992	February 29 1992
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 85,747,000	$ 71,464,000
Treasury note	5,031,000	5,035,000
Trade accounts receivable less allowance for doubtful accounts of $795,000 and $765,000 respectively	25,675,000	24,778,000
Receivable from Avecor Cardiovascular, Inc.	1,033,000	1,013,000
Other receivables	458,000	291,000
Inventories (Note C)	7,695,000	8,291,000
Deferred income tax asset	2,279,000	2,279,000
Prepaid expenses	1,255,000	745,000
Total Current Assets	129,173,000	113,896,000
Equipment and Furnishings, net	16,656,000	15,036,000
License Fees and Purchased Technology less accumulated amortization of $3,357,000 and $2,721,000 respectively	29,409,000	30,636,000
Investment in Heart Technology, Inc.	8,000,000	8,000,000
Long-term Deferred Income Tax Asset	586,000	586,000
Other Assets, net	984,000	741,000
	$184,808,000	$168,895,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 6,555,000	$ 8,334,000
Salaries and wages payable	7,410,000	8,438,000
Current portion of license fees payable	10,184,000	10,059,000
Royalties payable	4,993,000	3,287,000
Income taxes payable	5,185,000	189,000
Other current liabilities	1,236,000	1,078,000
Total Current Liabilities	35,563,000	31,385,000
Long-term License Fees Payable	9,615,000	9,484,000
Other Long-term Liabilities	353,000	359,000
Commitments and Contingencies (Note D)		
Shareholders' Equity:		
Common stock, par value $.05 per share, authorized 100,000,000 shares, issued and outstanding 14,897,242 and 14,885,684 respectively	745,000	744,000
Additional paid-in capital	44,259,000	43,328,000
Retained earnings	94,273,000	83,595,000
	139,277,000	127,667,000
	$184,808,000	$168,895,000

See notes to consolidated financial statements.

SCIMED Life Systems, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended May 31	
	1992	1991
Cash Flows From Operating Activities:		
Net earnings	$10,678,000	$11,903,000
Tax benefit relating to stock option plans and employee stock purchase plan	756,000	—
Depreciation and amortization	2,626,000	1,039,000
Deferred income taxes	—	—
Deferred rent abatement	(6,000)	(10,000)
Changes in working capital items:		
(Increase) Decrease in:		
Receivables	(1,084,000)	(2,625,000)
Inventories	596,000	236,000
Prepaid expenses	(510,000)	(445,000)
Increase (Decrease) in:		
License fees payable	256,000	—
Trade accounts payable	(1,779,000)	(583,000)
Salaries and wages payable	(1,028,000)	(1,153,000)
Income taxes payable	4,996,000	5,111,000
Royalties payable	1,706,000	—
Other current liabilities	158,000	(114,000)
Net cash provided by operating activities	17,365,000	13,359,000
Cash Flows From Investing Activities:		
Investment in equipment, furnishings and facilities	(3,020,000)	(1,099,000)
Investment in Heart Technology, Inc.	—	(8,000,000)
Other, net	(239,000)	(34,000)
Net cash used in investing activities	(3,259,000)	(9,133,000)
Cash Flows From Financing Activities:		
Sales of common stock under options, warrants and stock purchase plan	168,000	360,000
Other, net	9,000	7,000
Net cash provided by financing activities	177,000	367,000
Net increase in cash and cash equivalents	14,283,000	4,593,000
Cash and Cash Equivalents:		
Beginning of period	71,464,000	55,016,000
End of period	$85,747,000	$59,609,000

See notes to consolidated financial statements.

SCIMED Life Systems, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A

The consolidated financial statements include the accounts of the Company and two wholly owned sales subsidiaries. All material intercompany profits, transactions and balances have been eliminated in consolidation.

Earnings per common and common equivalent share are calculated by dividing the earnings (or loss) for the period by the weighted average number of common and common equivalent shares outstanding during the period, which includes the dilutive effect of outstanding stock options and warrants.

NOTE B

In the opinion of management, the unaudited financial statements contain all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position of the Company as of May 31, 1992 and the results of its operations and cash flows for the three months ended May 31, 1992 and 1991. These results are not necessarily indicative of the results to be expected for the full fiscal year.

The financial information presented herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 1992. Certain reclassifications have been made in the May 31, 1991 financial statements to conform to those for May 31, 1992. The reclassifications had no effect on results of operations previously reported.

NOTE C

Inventories consist of the following:

	May 31, 1992	February 29, 1992
Raw Material	$1,955,000	$1,981,000
Work in Process	1,206,000	1,855,000
Finished Goods	4,534,000	4,455,000
	$7,695,000	$8,291,000

NOTE D

On April 24, 1991, a lawsuit was brought against the Company in United States District Court for the District of Minnesota by Schneider (USA) Inc. and Schneider (Europe) AG, subsidiaries of Pfizer Inc., alleging that the Company's EXPRESS™ catheter infringes U.S. patent No. 4,762,129. The Company has denied the claims and discovery is underway. On May 2, 1991, the Company filed a lawsuit against Schneider (USA) Inc. alleging patent infringement on a U.S. patent owned by the Company. The parties have stipulated to a dismissal of this action without prejudice, due to Schneider's withdrawal of the alleged infringing product from the market.

Immediately after a significant market price decline in the Company's common stock following a September 25, 1991 press release which commented on, among other items, the status of the EXPRESS catheter product line in the United States, the Company was served with several lawsuits brought by various shareholders alleging that the Company and certain officers and directors had violated state and federal securities laws. On December 27, 1991, a consolidated and amended complaint was filed in the United States District Court for the District of Minnesota alleging similar securities law violations and seeking class action certification. An answer was filed by the Company denying all claims, and discovery has commenced. The Company believes the lawsuit is without merit and intends to vigorously defend itself.

SCIMED Life Systems, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Months Ended May 31, 1992 and 1991

Results of Operations

Net sales for the three months ended May 31, 1992 were $51,265,000, an increase of $9,315,000, or 22 percent, over the comparable period in the prior year. Excluding prior year sales of the Surgical Division sold in June 1991, net sales increased 29 percent. Sales increased significantly due to the continued expansion in the number of models and sizes of angioplasty catheters marketed by the Company. New product introductions during the past year include the MIRAGE™, COBRA 14™ and COBRA 10™ balloon catheters and the 8F TRIGUIDE INTERMEDIATE™ guide catheter. Price increases accounted for approximately 4 percent of sales growth for the three months ending May 31, 1992. International sales for the three months ended May 31, 1992 increased 50 percent over the prior year. Although management expects continued growth of the worldwide coronary angioplasty market, the rate of growth is likely to decrease.

Cost of sales represented 21 percent of net sales for the three months ended May 31, 1992, compared to 22 percent for the comparable period in the prior year. This decrease as a percentage of net sales was due to greater sales of higher margin cardiology products and higher production volumes which favorably affected unit costs. Cost of sales is expected to increase as a percentage of net sales due in part to additional costs to be incurred in connection with the start-up of manufacturing operations internationally, as well as to amortization of certain license fee payments to be made in connection with the November 1991 settlement of patent litigation with Advanced Cardiovascular Systems, Inc. (ACS), a subsidiary of Eli Lilly and Company (see Note D of Notes to Consolidated Financial Statements in the Company's 1992 Annual Report to Shareholders).

Selling, general and administrative expenses for the three months ended May 31, 1992 increased by $2,883,000 or 23 percent over the comparable period in the prior year. However, selling, general and administrative expenses remained relatively constant as a percentage of net sales at 29.6 percent for the three months ended May 31, 1992 compared to 29.3 percent for the same period in the prior year. The dollar increase was primarily due to increased commissions on the higher sales volume, an expansion of the sales force and increased marketing expenses.

Research and development expenses for the three months ended May 31, 1992 increased by $1,502,000, or 59 percent, and increased as a percentage of net sales from 6.1 percent to 7.9 percent over the comparable period in the prior year. The increase was due to spending on new product programs for both the cardiology and peripheral vascular intervention markets. The Company believes that sizable R&D expenditures are necessary given the nature of its business, and expects to increase R&D spending in fiscal 1993 by at least 50 percent over the prior fiscal year.

Royalty expense relates primarily to the ACS settlement. The combination of royalties and amortization of license fees in connection with the settlement is anticipated to aggregate between 10 percent and 12 percent of net sales in fiscal 1993.

Interest income decreased two percent for the three months ended May 31, 1992 over the comparable period in the prior year, reflecting lower prevailing interest rates on higher cash balances.

Interest expense for the three months ended May 31, 1992 is attributable to imputed interest on the license fee payments to be made to ACS.

For the three months ended May 31, 1992, the income tax provision was determined using an estimated effective tax rate of 35.5 percent compared to 36.5 percent for the comparable period in the prior year.

Financial Condition

Working capital increased to $93,610,000 at May 31, 1992, compared to $82,511,000 at February 29, 1992. The increase was due primarily to funds provided by operations of approximately $17.4 million, partially offset by capital expenditures of $3.0 million. The Company expects that capital expenditures will increase significantly in future periods as the Company expands its facilities, research and development and production capacities.

The Company believes that its present cash balances, together with cash generated from operations, will be sufficient to fund its anticipated operating and capital requirements for the foreseeable future.

Part II: Other Information

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of the Registrant was held on June 30, 1992. The only matter voted upon at the meeting, other than the election of directors and approval of auditors, was a proposal to approve and ratify the adoption of the 1992 Stock Option Plan. This proposal passed, receiving 12,593,879 affirmative votes, 1,042,695 negative votes and 67,040 abstaining votes.

Item 5. Other Information

On March 27, 1992, the Company entered into a Separation Agreement with Christian Mazzola, its Senior Vice President of Sales & Marketing, pursuant to which Mr. Mazzola resigned as an employee of the Company effective March 31, 1992. The Agreement provided that Mr. Mazzola was to receive severance pay for up to 12 months of base salary (not to exceed a gross total of $140,000) through the earlier of Mr. Mazzola's commencement of employment with another employer or March 31, 1993 as well as reimbursement of up to $15,000 for outplacement counseling. The Agreement also provided that the Company would waive the requirement that Mr. Mazzola be employed on the payout date in order to be considered for a bonus under the Management Incentive Plan for fiscal 1992. Finally, the Agreement also accelerated the exercise date of 10,000 of the 12,333 options to purchase shares of the Company's common stock granted under the 1987 Non-Qualified Stock Option Plan that were scheduled to become exercisable March 31, 1993. Mr. Mazzola exercised all 10,000 of these options on June 26, 1992 at an exercise price of $20.00 per share.

On April 16, 1992 the Company announced that Randall F. Bellows had been elected to fill a vacancy on the Board of Directors. Mr. Bellows is co-founder and a Director of Cobe Laboratories, Inc. from which he retired as Executive Vice President in 1990.

On June 1, 1992 the Company announced that it has signed an agreement with American Home Products Corporation ("AHPC") which will enable the Company to begin manufacturing angioplasty catheter products in Belgium prior to the end of its fiscal year, ending February 28, 1993. The agreement with AHPC provides for a period ending in mid-1992 during which AHPC's Belgian subsidiary, Sherwood Medical S.A. ("SMSA"), will provide contract manufacturing services for the Company. At the end of that period, the Company intends to purchase a newly formed subsidiary of SMSA to which certain SMSA assets, including the land, building, sterilization facilities and certain other equipment, will have been contributed. Under terms of the agreement, the Company will also assume, upon purchase, certain employer responsibilities for approximately 190 current SMSA employees.

On July 9, 1992 the Company purchased approximately 62 acres of land in Maple Grove, a northwestern suburb of Minneapolis, Minnesota, on which it intends to consolidate some of its operations over an extended period of time. In July of this year the Company intends to begin construction on a 150,000 square foot building to primarily house new product and process development and pilot production activities along with most corporate functions. Construction is scheduled to be completed in September 1993. The projected cost of the land and construction of the first phase is approximately $20 million. The Company does not intend to obtain construction financing but does plan to arrange for permanent financing once the facility is completed.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

(10.1) Separation agreement dated March 27, 1992 between the Company and Christian L. Mazzola.

b) Reports on Form 8-K

None during the three months ended May 31, 1992 and through the date of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCIMED Life Systems, Inc.

by: ______________________________
Dale A. Spencer
President and Chief Executive Officer
(Principal Executive Officer)

____
Craig R. Dvorak
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: July 10, 1992

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS
TO
FORM 10-Q

For the Quarter Ended May 31, 1992

SCIMED Life Systems, Inc.

EXHIBIT INDEX

Exhibit No.	Description	Page No.
10.1	Separation Agreement dated March 27, 1992 between the Company and Christian L Mazzola.	15

EXHIBIT 10.1

SEPARATION AGREEMENT

This Separation Agreement is made and entered into this 27 day of March, 1992, between Christian L. Mazzola ("Employee") and SciMed Life Systems, Inc., a Minnesota corporation ("Employer").

Recital

The purpose of this Separation Agreement is to set forth the terms and conditions under which Employee and Employer will terminate their employment relationship.

In consideration of the recital stated above and the mutual promises made below, the parties agree as follows:

1. Resignation. Employee hereby offers and Employer hereby accepts his resignation as an employee of Employer effective with the close of business on March 31, 1992. Employee and Employer both agree to refrain from any disparagement of the other party in any discussion with third parties. Employee agrees not to seek reemployment with the Employer. The Employee agrees that he will meet with Dale Spencer prior to April 10, 1992, to reach agreement regarding mutually acceptable information which the Employer may release to prospective employers of the employee, and other members of the medical device and business communities, and other persons with a need to know, and on other orderly transition matters.

2. Severance Settlement. Employee will receive severance payments for up to 12 months of base salary, (not to exceed a gross total of $140,000.00), to be paid at the same interval as salary payments formerly were paid and subject to FICA and income tax deductions. The Employee's right to receive severance benefits and reimbursement for the cost of insurance coverage under this Agreement will end upon the Employee's commencement of employment with another employer, or on March 31, 1993, whichever occurs first. In addition Employee will be permitted, after March 31, 1992, and before July 1, 1992, to exercise 10,000 shares (at the exercise price of $20.00) of the 12,333 shares of stock options which would otherwise vest and be available to him on March 31, 1993, provided that any such stock shares acquired pursuant to these options shall be issued subject to the restrictions that they shall not be sold prior to the close of business on July 31, 1992 and that they are subject to partial forfeiture pursuant to paragraph 10. The Employer's Board of Directors will, in determining the amount of the Employee's management incentive payout for the fiscal 1992 year, treat the Employee consistently with other employees. The Employer agrees that the amount of the Employee's management incentive payout will be based on Employer's performance and on Employee's performance, as measured against Employee's fiscal 1992 objectives, and will be determined in the same manner and course as for other senior

executives. The Employer waives its requirement that the Employee be employed on May 15, 1992, in order to be eligible for this payout. Employee shall remain entitled to any benefits which have accrued and are vested as of March 31, 1992. Except as provided in this paragraph and paragraph 3, all other forms of compensation and benefits of employment shall cease as of March 31, 1992.

3. Insurance. From April 1, 1992 through May 31, 1992, the Employee may continue his insurance coverage under the Employer's plan pursuant to the exercise of his rights (as modified by this Agreement) under COBRA. The Employee agrees that he will be responsible for obtaining his own individual and dependent health and life insurance coverage beginning June 1, 1992. If the Employee is unable, by June 1, 1992, to secure insurance coverage comparable to what he currently has, the Employee may continue the current insurance coverage by continuing his coverage under COBRA for ten additional months. On April 1, 1993, or when the Employee commences employment elsewhere, whichever occurs first, the Employee's coverage under the Employer's insurance plan shall terminate. Except as otherwise provided in this paragraph, the Employee waives any rights he may have under state or federal law to continue the Employer's group health, dental and life insurance. In exchange for the Employee's waiver of his right to continue his group health and life insurance coverage, the Employer agrees to reimburse the Employee in an amount not to exceed the cost to the Employee of converting his current health insurance coverage into his own name (estimated to be $315.00 per month) for ten months beginning June 1, 1992, or until the Employee becomes employed elsewhere, whichever occurs first.

4. Return of Property. Employee agrees to return to Employer's office his keys and security cards and any other tangible or intangible property of Employer, including financial and business reports and records, sales and marketing materials and any and all correspondence and documents that Employee has in his possession, including all copies thereof, irrespective of the form or medium of such materials, and including all word processing or computer data or records of such material. The parties agree that they will, within 14 days of the execution of this Agreement, meet to review what if any Employer property the Employee may retain. The Employer shall have complete discretion to decide which Employer property the Employee must return.

5. Transition Procedure. Employee agrees to provide Employer with status reports concerning all projects with which he was engaged at the time of his separation from employment and to be reasonably available during the period of the payments provided

for under paragraph 2 for brief reports concerning such matters. Such reports shall generally be verbal, provided that Employer may reasonably request written reports from time to time.

6. Mutual Releases. In consideration of the payments and other undertakings stated herein, Employee agrees to execute a separate Release ("Release") in the form attached hereto as Exhibit A, which is herein incorporated by reference, at the same time he executes this Agreement. In consideration of Employee's undertakings set forth herein, including his execution of the separate Release attached hereto as Exhibit A, Employer agrees to give up all of the claims which it has against Employee, whether or not Employer now knows about these claims, provided that neither the Employer nor the Employee release the other party with respect to claims which may arise after March 31, 1992, including but not limited to claims which may arise under Employee's Employment Agreement dated April 18, 1990.

7. Mutual Confidentiality. The terms of this Agreement and the Release will be treated as forever confidential by the Employee and the Employer, except that the Employer shall be permitted to release information to prospective employers and other members of the financial or medical device products communities, or other persons with a need to know, in accordance with the language agreed upon between the Employee and the Employer's President. Otherwise, the terms of the Agreement will not be disclosed by the Employee to anyone except his attorney, accountant, tax adviser, state or federal tax authorities and spouse, unless a court order specifically directs such disclosure and then only within the strict limits of that order, unless agreed to in writing by the Employer. Employee recognizes and agrees that this confidentiality provision was a significant inducement for the Employer to enter into this Agreement.

8. Outplacement Services. The Employer agrees to reimburse the Employee for the cost of outplacement counselling with Drake, Beam & Morand in an amount not to exceed $15,000.00.

9. Survival of and Reaffirmation of Employment Agreement Dated April 18, 1990. In consideration of Employer's undertakings in paragraphs 1, 2, 3 and 6, and prior consideration received, Employee specifically agrees that Employee's Employment Agreement dated April 18, 1990 survives the termination of his employment, is unaffected by this Agreement or the Release and is binding upon Employee until March 31, 1994, provided that Employee waives any right to payments pursuant to paragraph 4(d) of the Employment Agreement dated April 18, 1990, in consideration of the payments to be made pursuant to paragraphs 2 and 3 of this Agreement. Employee's obligation to keep secret and refrain from use of confidential and trade secret information, however, shall not cease as of April 1, 1994, but shall continue thereafter without limitation.

10. __Material Breach__. Any breach by Employee of paragraphs 4, 5, 6, 7, or 9 of this Agreement, or of the Release, or of the Employment Agreement dated April 18, 1990, and any breach by Employer of paragraphs 1, 2, 3, 6, 7 or 8 of this Agreement will be deemed a material breach of this Agreement. In the event of a material breach by Employer, Employee is released of any obligations under this Agreement. In the event of any material breach by Employee, Employer is released of any obligations under this Agreement and may require repayment by Employee of any and all amounts paid by Employer to Employee or to third parties on Employee's behalf pursuant to this Agreement, and payment by Employee of the value to Employee of any other benefit received pursuant to this Agreement. In addition, in the event of such breach by Employee on or prior to July 31, 1992, the Employer, upon ten (10) days written notice to Employee's known address, may repurchase any stock shares acquired by Employee pursuant to the March 31, 1993 stock option, accelerated to March 31, 1992 pursuant to paragraph 2, at the stock option exercise price paid by Employee and Employee shall forfeit any additional value or appreciation of such stock. The restrictions imposed by this paragraph and paragraph 2 will be disclosed on the face of any stock certificates covered by such restrictions in the form attached as Exhibit B.

11. __Rescission/Revocation__. Employee may consider and decide to rescind/revoke (cancel) this Agreement and Release pursuant to the Minnesota Human Rights Act and the Age Discrimination in Employment Act, within twenty-eight (28) days of execution, and the Agreement and Release will not be effective or enforceable until the expiration of this rescission/revocation period. To be effective, his rescission/revocation must be in writing and delivered to Cecily Hines, Esq. at SciMed Life Systems, 6655 Wedgewood, Maple Grove, MN 55369, either by hand or by mail within the 28-day period. If sent by mail, the rescission/revocation must be:

a. Postmarked within the 28-day period;
b. Properly addressed to Employer; and
c. Sent by certified mail, return receipt requested.

If Employee rescinds/revokes this Agreement and Release, Employer will be released of any obligations pursuant to this Agreement and will be entitled to return of any payments made to Employee or to third parties on Employee's behalf or repayment of the value of benefits received by Employee prior to Employee's rescission/revocation. Rescission/revocation of the Release will be deemed to be rescission/revocation of the Agreement and vice versa.

12. __Non-Admission__. Nothing in this Agreement is intended to be, nor shall it be deemed to be, an admission of any contract breach, liability or wrongdoing by Employer under any state or federal statute, local ordinance or principle of common law.

13. Entire Agreement. This Agreement and the Release supersede all prior oral and written agreements and communications between the parties, including but not limited to the Employment Agreement dated May 16, 1990 and the letter of Mr. Dale A. Spencer to Employee dated December 19, 1989, but excluding the Employment Agreement dated April 18, 1990 which survives this Agreement.

14. Partial Invalidity. If for any reason a court of competent jurisdiction finds any provision of this Agreement to be unenforceable, the offending provision shall be deemed amended to the extent necessary to conform to applicable laws or regulations, or if it cannot be so amended without materially altering the intention of the parties, it shall be severed herefrom. In either event the remainder of the Agreement shall continue in full force and effect.

15. Governing Law. This Agreement and the Release will be construed and interpreted in accordance with the laws of the State of Minnesota.

16. Voluntary and Knowing Action. Employee acknowledges that he has read and understands the terms of this Agreement and the Release, that he has had the prior opportunity to consult with an attorney of his choice concerning the terms of this Agreement and Release, which Employer has encouraged him to do, and that he has voluntarily entered into this Agreement and Release for the reasons set forth herein.

IN WITNESS WHEREOF, the parties have caused this Agreement and the attached Release to be signed on the day and year indicated above.

SCIMED LIFE SYSTEMS, INC.
("Employer")

BY: ______________________
Its Pres CEO

Christian L. Mazzola
____
Christian L. Mazzola
("Employee")

DPS:1081

EXHIBIT A
RELEASE

Agreement to Release My Claims. I have received a substantial amount of money paid by the "Employer" (as defined below). I agree to give up all "My Claims" (as defined below) against the Employer in exchange. I will not bring any lawsuits, file any charges, complaints, or notices or make any other demands against the Employer based on My Claims. The Employer does not owe me anything in addition to what I have already received, except the amounts expressly set forth in the Separation Agreement dated March 24, 1992.

"My Claims" mean all of the rights that I have now to any relief of any kind from the Employer, whether or not I now know about those rights, arising out of my employment with the Employer, and my separation from employment, including without limitation, claims for salary, bonus, stock options, benefits, claims for breach of contract pursuant to the letter of Mr. Dale A. Spencer to me dated December 19, 1989, the Employment Agreements dated April 18, 1990 and May 16, 1990 or any other claimed agreement between the parties, claims for promissory estoppel, fraud or misrepresentation, violation of the Minnesota Human Rights Act, violation of the Age Discrimination in Employment Act, defamation, intentional or negligent infliction of emotional distress, breach of the covenant of good faith and fair dealing, negligence, wrongful termination of employment and any and all other claims, provided that this Release shall not affect Employee's claims under ERISAthe Employee expressly waives his rights under COBRA or Minnesota mandatory insurance benefit statutes.

"Employer" means the Minnesota corporation known as SciMed Life Systems, Inc. and all of its officers, directors, employees, successors and assigns. "Agreement" means the Separation Agreement between the parties dated March 24, 1992.

I understand that I may consider this Release and Agreement and decide to rescind/revoke (cancel) them within twenty-eight (28) calendar days of signing them, and that the Release and Agreement will not be effective or enforceable until the expiration of this rescission/revocation period. To be effective, my rescission/revocation must be in writing and delivered to Cecily Hines, Esq. at SciMed Life Systems, 6655 Wedgewood, Maple Grove, MN 55369, either by hand or by mail within the 28-day period. If sent by mail, the rescission/revocation must be:

a. Postmarked within the 28-day period;
b. Properly addressed to the Employer; and

c. Sent by certified mail, return receipt requested.

If Employee rescinds/revokes this Agreement and Release, Employer will be released of any obligations pursuant to this Agreement and will be entitled to return of any payments made to Employee or to third parties on Employee's behalf or repayment of the value of benefits received by Employee prior to Employee's rescission/revocation. Rescission/revocation of the Release will be deemed to be rescission/revocation of the Agreement and vice versa.

I have read this Release carefully and understand and agree to all its terms. I have had the prior opportunity to consult with an attorney of my choice concerning the terms of this Release, which the Employer has encouraged me to do, and have freely and voluntarily executed the Release.

Christian L. Mazzola

Dated: March 22, 1992

Christian L. Mazzola

DPS:1091/5

EXHIBIT B
STOCK CERTIFICATE LEGEND

"The shares of common stock represented by this certificate are non-transferable and restricted subject to the terms of that certain Separation Agreement between the certificate holder and the Corporation dated March 22, 1992, a copy of which is on file with the Secretary of the Corporation. The repurchase restrictions referred to in this legend will expire at the close of business on July 31, 1992."

DPS:1091.7

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

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LAP

FORM 10-Q

PG2-2228

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quar d May 31, 1992

Commission or 2-86860

PROCESSED BY
9-9-V
[illegible]

Sensing Technology, Inc.
(Exact name of registrant as specified in its charter)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

New Jersey
(State or other jurisdiction of incorporation or organization)

(I.R.S. employer Identification No.)

L39

375 Sylvan Avenue, Englewood Cliffs, NJ 07632
(Address of principal executive offices) (Zip Code)

(201) 568-7079
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ____

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AVAILABLE

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 31, 1992
Common Stock, no par value	74,206,081 shares

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SENECA SENSING TECHNOLOGY, INC. & SUBSIDIARIES
STATEMENT OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED MAY 31,		SIX MONTHS ENDED MAY 31,	
	1992	1991	1992	1991
Revenues:				
Net sales	$ 480,399	$ 371,245	$ 864,412	$ 795,792
Interest income	27,207	42,263	59,142	91,669
Other Income	9,035		9,035	
	516,641	413,508	932,589	887,461
Costs and expenses:				
Cost of sales	164,630	135,649	334,582	277,157
Selling, general and administrative	251,421	195,094	487,274	379,373
Research and development	42,041	28,743	66,598	60,418
Totals	458,092	359,486	888,454	716,948
Income before provision for income taxes	58,549	54,022	44,135	170,513
Provision for income taxes	14,905	10,190	15,875	59,790
Net Income	$ 43,644	$ 43,832	$ 28,260	$ 110,723
Net income per share	-	-	-	-
Weighted average number of shares outstanding	74,517,081	74,527,081	74,517,081	74,527,081

(See Notes to Financial Statements)

SENTEX SENSING TECHNOLOGY, INC. & SUBSIDIARIES
STATEMENT OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED	
	MAY 31, 1992	MAY 31, 1991
Operating activities:		
Net income (Loss)	$ 28,260	$ 110,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,928	10,804
Deferred income taxes	-0-	-0-
Warranty costs	(1,310)	(3,730)
Increase (decrease) from changes in:		
Accounts receivable	(96,935)	(117,625)
Inventories	(30,826)	28,304
Prepaid expenses	(32,290)	(11,076)
Other current assets	10,966	(26,907)
Accounts payable	8,876	25,165
Accrued expenses and other current liabilities	(100,274)	(78,259)
Income taxes payable	(14,004)	(71,072)
Net cash provided by (used in) operating activities	(219,609)	(133,673)
Investing activities:		
Redemption of short-term investments	2,827,593	1,553,681
Purchase of short-term investments	(2,517,729)	(1,409,820)
Acquisition of equipment and improvements	(3,734)	-
Disposition of equipment	10,826	-
Net cash provided by (used in) investing activities	316,956	143,861
Net increase (decrease) in cash	97,347	10,188
Cash, beginning of period	142,438	15,031
Cash, end of period	$ 239,785	$ 25,219

SENTEX SENSING TECHNOLOGY, INC. & SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. In the opinion of management, the unaudited financial statements contain all adjustments (consisting of only normal recurring accruals and repayments) necessary to present fairly the financial positions at May 31, 1992 and May 31, 1991, and the results of operations and cash flows for the three and six months ended May 31, 1992 and May 31, 1991.

2. The results of operations for the three and six months ended May 31, 1992 and May 31, 1991 are not necessarily indicative of the results to be expected for the full year.

3. Inventories:

   Inventories consist of the following:

	May 31, 1992	May 31, 1991
Raw Material	$ 95,909	$ 97,475
Work-in-process	52,080	6,575
Finished goods	23,160	9,279
Totals	$171,149	$113,329

4. Net income per share:

   Net income per share amounts were computed on the basis of the weighted average number of shares of common stock outstanding during each period. Common share equivalents (outstanding warrants and options) have not been included since their effect would either be anti-dilutive or insignificant.

5. Principles or Consolidation:

   The consolidated financial statements includes the accounts of Sentex Systems, Inc. and Sentex Acquisition Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

6. Certain Relationships and Related Transactions:

   On December 12, 1991, the Company made a loan of $75,000 (the "Loan") to Amos Linenberg, a Director and President of the Company. The Loan was evidenced by eight separate promissory notes with an aggregate principal amount of $75,000 all payable on December 10, 1992. The promissory notes bear interest at the prime interest rate plus 1%. As of May 12, 1992, this loan was repaid in full.

Mr. Simon Shilo, an employee of the Company, is reimbursed $1,050.00 per month for the rental cost of his apartment. Mr. Shilo rents the apartment from Amos Linenberg, a Director and President of the Company. The Company believes that the terms of the lease to be on terms no less favorable to the Company than could have been obtained from unaffiliated third parties.

All current transactions between the Company, and its officers, directors and principal stockholders or any affiliates thereof are, and in the future such transactions will be, on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

The Company formed two wholly owned subsidiaries, Sentex Systems, Inc., and Sentex Acquisitions Corp. on May 31, 1991 to separate the present operations of the company into a subsidiary to continue the business of designing, developing and marketing gas chromatographic devices, and a subsidiary to develop and acquire new investment opportunities. Both subsidiaries are incorporated in the State of Delaware and authorized to do business in the State of New Jersey.

Net sales of Company's products increased from $371,245 for the three months ended May 31, 1991 to $480,399 for the three months ended May 31, 1992. Orders for the Company's products received but not yet delivered as of May 31, 1992 amounted to $319,062 a slight decrease from the comparative period in the prior fiscal year. Operations resulted in a net income of $43,644 for the three months ended May 31, 1992, as compared to a net income of $78,958 for the comparative period in the prior fiscal year.

Costs of sales for the three months ended May 31, 1992 increased slightly to 34% of net sales as compared to 32% for the similar period in 1991. This increase resulted from the addition of production personnel and redesign and development costs expensed in the present fiscal quarter.

Interest income decreased to $27,207 for the three months ended May 31, 1992, as compared to $42,263 for the similar period in 1991. This decrease results from a declination of interest rates for invested capital.

Working capital increased to $3,085,600 compared to $3,036,946 at May 31, 1991. Cash and short-term investments amounted to $2,612,917. The amount of funds currently available are expected to be sufficient to fulfill the Company's anticipated cash requirements and other uses throughout 1992.

Item 6. Exhibits and Reports on Form 8 K

(a) No exhibits were required to be filed for the three months ended May 31, 1992.

(b) The company was not required to file Form 8-K for the three months ended May 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused the report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: 7/14/92

Amos Linenberg, President

DATE: 7/14/92

Joanne Bianco, Secretary

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

CP92-2228

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-5550

TELE-COMMUNICATIONS, INC.
(Exact name of Registrant as specified in its charter)

State of Delaware (State or other jurisdiction of incorporation or organization)	84-0588868 (I.R.S. Employer Identification No.)

PROCESSED BY
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MAY 18 1992

5619 DTC Parkway
Englewood, Colorado
(Address of principal executive of

80111
(Zip Code)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

L53

Registrant's telephone number, including area code: (303) 267-5500

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No_____

The number of shares outstanding of the Registrant's common stock (net of shares held in treasury), as of May 1, 1992, was:

Class A common stock - 370,455,016 shares; and
Class B common stock - 48,114,176 shares.

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(This document contains 22 pages.)

TELE-COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(unaudited)

Assets	March 31, 1992	December 31, 1991*
	amounts in millions	
Cash	$ 10	35
Trade and other receivables, net	217	249
Prepaid expenses	43	35
Investment in Liberty Media Corporation ("Liberty") (note 4)	406	387
Investments in other affiliates, accounted for under the equity method, and related receivables (note 5)	1,167	1,159
Investment in Turner Broadcasting System, Inc. (note 6)	463	463
Other investments, at cost, and related receivables (note 7)	232	231
Property and equipment, at cost:		
Land	157	157
Cable distribution systems	4,968	4,923
Theatre buildings and equipment	610	654
Support equipment and buildings	605	515
	6,340	6,249
Less accumulated depreciation	1,929	1,806
	4,411	4,443
Franchise costs	6,326	6,310
Less accumulated amortization	624	587
	5,702	5,723
Other assets, at cost, net of amortization	213	213
	$12,864	12,938

*Restated - see note 4.

(continued)

TELE-COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, continued
(unaudited)

Liabilities and Stockholders' Equity	March 31, 1992	December 31, 1991*
	amounts in millions	
Accounts payable	$ 154	148
Accrued interest	120	97
Other accrued expenses	364	373
Debt (note 8)	9,827	9,910
Deferred income taxes	178	158
Other liabilities	158	183
Total liabilities	10,801	10,869
Minority interests in equity of consolidated subsidiaries	600	587
Redeemable preferred stocks (note 9)	115	115
Stockholders' equity (note 10):		
Preferred stock, $1 par value. Authorized 10,000,000 shares; issued and outstanding 5,028,595 shares of redeemable preferred stocks in 1992 and 1991	--	--
Class A common stock, $1 par value. Authorized 1,000,000,000 shares; issued 449,746,095 shares in 1992 and 449,124,604 shares in 1991	450	449
Class B common stock, $1 par value. Authorized 100,000,000 shares; issued 48,652,039 shares in 1992 and 48,790,443 shares in 1991	49	49
Additional paid-in capital	1,735	1,738
Accumulated deficit	(553)	(536)
	1,681	1,700
Treasury stock, at cost (79,335,038 shares of Class A common stock in 1992 and 1991)	(333)	(333)
Total stockholders' equity	1,348	1,367
Commitments and contingencies (note 12)		
	$12,864	12,938

*Restated - see note 4.

See accompanying notes to consolidated financial statements.

TELE-COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(unaudited)

	Three months ended March 31, 1992	Three months ended March 31, 1991
	amounts in millions, except per share amounts	
Revenue	$1,007	963
Operating costs and expenses:		
Operating	374	396
Selling, general and administrative (note 5)	228	180
Depreciation	128	132
Amortization	45	45
	775	753
Operating income	232	210
Other income (expense):		
Interest expense	(200)	(224)
Share of losses of Liberty (note 4)	(2)	--
Share of losses of other affiliates, net	(19)	(11)
Minority interests in earnings of consolidated subsidiaries, net	(15)	--
Other, net (note 5)	8	20
	(228)	(215)
Earnings (loss) before income taxes	4	(5)
Income tax expense	(21)	(20)
Net loss	(17)	(25)
Dividend requirement on redeemable preferred stocks	(5)	--
Net loss attributable to common shareholders	$ (22)	(25)
Loss per common share (note 2)	$(.05)	(.07)

See accompanying notes to consolidated financial statements.

TELE-COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

Three months ended March 31, 1992
(unaudited)

	Common stock		Additional paid-in capital	Accumulated deficit	Treasury stock	Total stockholders' equity
	Class A	Class B				
			amounts in millions			
Balance at January 1, 1992*	$ 449	49	1,738	(536)	(333)	1,367
Net loss	--	--	--	(17)	--	(17)
Issuance of common stock upon exercise of options	1	--	5	--	--	6
Dividends on redeemable preferred stocks	--	--	(5)	--	--	(5)
Acquisition and retirement of common stock	--	--	(3)	--	--	(3)
Balance at March 31, 1992	$ 450	49	1,735	(553)	(333)	1,348

*Restated - see note 4.

See acccompanying notes to consolidated financial statements.

TELE-COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(unaudited)

	Three months ended March 31,	
	1992	1991
	amounts in millions (see note 3)	
Cash flows from operating activities:		
Net loss	$ (17)	(25)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	173	177
Share of losses of Liberty	2	--
Share of losses of other affiliates	19	11
Deferred income tax expense	20	18
Minority interests in earnings	15	--
Amortization of debt discount	6	--
Noncash interest and dividend income	(7)	(11)
Other noncash charges (credits)	4	(2)
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Change in receivables	32	15
Change in prepaid expenses	(8)	6
Change in accrued interest	23	34
Change in other accruals and payables	(3)	(51)
Net cash provided by operating activities	259	172
Cash flows from investing activities:		
Cash paid for acquisitions	(15)	--
Capital expended for property and equipment	(93)	(104)
Proceeds from disposition of assets	15	--
Additional investments in and loans to affiliates and others	(40)	(69)
Return of capital from affiliates	--	7
Repayment of loans by affiliates and others	4	13
Repayment of short-term notes to Liberty	(22)	--
Other investing activities	(40)	(24)
Net cash used in investing activities	(191)	(177)
Cash flows from financing activities:		
Borrowings of debt	1,121	881
Repayments of debt	(1,210)	(880)
Preferred stock dividends of subsidiaries	(2)	(6)
Sales of equity securities of subsidiaries	--	3
Preferred stock dividends	(5)	--
Issuances of common stock	6	--
Repurchases of common stock	(3)	--
Net cash used in financing activities	(93)	(2)
Net decrease in cash	(25)	(7)
Cash at beginning of period	35	31
Cash at end of period	$ 10	24

See accompanying notes to consolidated financial statements.

TELE-COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 1992
(unaudited)

(1) General

The accompanying consolidated financial statements include the accounts of Tele-Communications, Inc. and those of all majority-owned subsidiaries ("TCI" or the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

Certain amounts have been reclassified for comparability with the 1992 presentation.

(2) Loss Per Common Share

Loss per common share for the three months ended March 31, 1992 and 1991 was computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during such periods (419.0 million and 355.2 million for the three months ended March 31, 1992 and 1991, respectively). Common stock equivalents were not included in the computation of weighted average shares outstanding because their inclusion would be anti-dilutive.

(3) Supplemental Disclosures to Consolidated Statements of Cash Flows

Cash paid for interest was $171 million and $190 million for the three months ended March 31, 1992 and 1991, respectively. Also, during these periods, cash paid for income taxes was not material.

Significant noncash investing and financing activities for the three months ended March 31, 1992 and 1991 are as follows:

	1992	1991
	amounts in millions	
Contribution of certain interests to affiliate in exchange for preferred stock (see note 4)	$ --	439
Common stock issued upon conversion of debentures	$ --	4

(continued)

(4) Investment in Liberty Media Corporation

On March 28, 1991, Liberty Media Corporation ("Liberty"), an indirect, wholly-owned subsidiary of the Company until said date, issued shares of its common stock to TCI shareholders who, in the aggregate, tendered 8,713,696 shares of TCI Class A common stock and 2,737,712 shares of TCI Class B common stock to Liberty pursuant to an exchange offer. Also, on March 28, 1991, the Company contributed its interests in certain of its cable television programming businesses and cable television systems to Liberty in exchange for several different classes and series of preferred stock of Liberty with an aggregate issue price of $624 million. No gain or loss was recorded in connection with this transaction and, accordingly, the initial carrying amount of such preferred stock of Liberty equals the aggregate carrying amount of the net assets contributed ($439 million).

Of the classes of preferred stock of Liberty held by the Company, one class entitles TCI to elect a number of members of Liberty's board of directors equal to not less than 20% of the total number of directors, another class is exchangeable for TCI common stock and another class is convertible into common stock (less than 5%) of Liberty.

Due to the related party nature of the transaction, TCI accounts for its investment in Liberty under the equity method. Accordingly, the Company does not recognize any income relating to dividends, including preferred stock dividends, and the Company has continued to record the earnings or losses generated by the interests contributed to Liberty (by recognizing 100% of Liberty's earnings or losses before deducting preferred stock dividends).

The Company purchases sports and other programming from certain subsidiaries of Liberty. Charges to TCI (which are based upon customary rates charged to others) for such programming were $11 million for the three months ended March 31, 1992. Certain subsidiaries of Liberty purchase, at TCI's cost, certain pay television and other programming. Charges for such programming were less than $1 million for the three months ended March 31, 1992.

TCI and Liberty have entered into a services agreement pursuant to which TCI provides, among other things, administrative and operational services. Charges by TCI in connection with the rendering of such services amounted to approximately $1 million for the three months ended March 31, 1992.

Summarized unaudited consolidated results of operations of Liberty for the three months ended March 31, 1992 are as follows (amounts in millions):

Revenue	$ 33
Operating expenses	(34)
Depreciation and amortization	(3)
Operating loss	(4)
Interest expense	(1)
Other, net	3
Net loss	$ (2)

(continued)

On December 30, 1991, the Company entered into a Commercial Paper Purchase Agreement with Liberty whereby the Company may sell short-term notes to Liberty of up to an aggregate amount of $100 million. The Company borrowed $22 million from Liberty on December 31, 1991, pursuant to the Commercial Paper Purchase Agreement. The full amount, including interest, was repaid on January 15, 1992. Interest rates on the short-term notes are determined by the parties by reference to prevailing money-market rates.

In January of 1992, subsidiaries of Liberty and TCI created a partnership (owned 50.001% by Liberty and 49.999% by TCI) for the purpose of acquiring and operating cable television systems. The partners each agreed to contribute certain non-cash assets to the partnership and up to $25 million of cash as needed to fund mutually acceptable acquisitions. The non-cash assets were contributed to the partnership subsequent to March 31, 1992. TCI contributed all of its shares of one of the four classes of Liberty preferred stock.

Also, during the three months ended March 31, 1992, Liberty increased its economic and voting interest in Lenfest Communications, Inc. ("LCI") to 50% and, accordingly, adopted the equity method of accounting. Liberty's investment in LCI, which was previously accounted for under the cost method, was received from TCI in the March 28, 1991 transaction described above. As a result of the foregoing, TCI restated its investment, results of operations and stockholders' equity with respect to its ownership interest in LCI up to March 28, 1991. As of that date, the Company reduced (by $72 million) the carrying amount of its investment in Liberty preferred stock. The restatement did not affect the Company's results of operations for the three months ended March 31, 1992 and 1991 because, on a restated basis, the Company's investment in LCI was reduced to zero prior to 1991.

(5) Investments in Other Affiliates

Investments in affiliates, other than Liberty (see note 4), accounted for under the equity method, amounted to $1,086 million and $1,107 million at March 31, 1992 and December 31, 1991, respectively. Included in these amounts are the Company's investments in the common stock of SCI Holdings, Inc. ("SCI") and the preferred stock of its wholly-owned subsidiary, Storer Communications, Inc. ("Storer"), which investments aggregated $757 and $767 million at March 31, 1992 and December 31, 1991, respectively.

In connection with the Company's 1988 acquisition of an equity interest in SCI, a subsidiary of the Company issued certain debt and equity securities to Storer for $650 million. Interest charges and preferred stock dividend requirements on these debt and equity securities aggregated $22 million and $23 million for the three months ended March 31, 1992 and 1991, respectively. The Company's share of losses of SCI for the three months ended March 31, 1992 and 1991 amounted to $11 million and $13 million, respectively, as adjusted for the effect of interest and dividends accounted for by Storer as capital transactions due to their related party nature.

(continued)

In order to meet a certain 1992 debt obligation, SCI is currently pursuing various plans, including the possibility of a transaction that would result in the ownership of its cable systems being split, on a tax-free basis, between the Company and the other shareholder. This transaction is expected to occur during 1992, although there can be no assurance that it will occur during 1992 or at all since consummation of the transaction will require the obtaining of private and/or public debt financing, certain regulatory and other consents and approvals, and the execution by the parties of binding agreements. In any event, it is expected that the Company's investment in SCI will remain recoverable whether or not the aforementioned transaction is consummated.

The Company has a management consulting agreement with Storer which provides for the operational management of certain of Storer's cable television systems by TCI. This agreement provides for a management fee based on 3.5% of the revenue of those cable television systems managed by the Company. The Company also has a programming service agreement with Storer whereby the Company, for a fee, manages Storer's purchases of programming. The total management fees under the consulting and programming service agreements amounted to $2 million for each of the three months ended March 31, 1992 and 1991 (which amounts are recorded as a reduction of selling, general and administrative expenses in the accompanying consolidated statements of operations).

In addition to its investment in Liberty (see note 4), the Company has other investments in affiliates accounted for under the equity method. Summarized unaudited results of operations for such affiliates (including those contributed to Liberty through March 28, 1991) are as follows:

Combined Operations	Three months ended March 31, 1992	Three months ended March 31, 1991
	amounts in millions	
Revenue	$ 290	603
Operating expenses	(168)	(438)
Depreciation and amortization	(75)	(103)
Operating income	47	62
Interest expense	(76)	(116)
Other, net	(2)	(11)
Net loss	$ (31)	(65)

The Company has interest bearing receivables due from certain affiliates and other companies. Income on such receivables amounted to $14 million and $17 million for the three months ended March 31, 1992 and 1991, respectively (which amounts are included in other income in the accompanying consolidated statements of operations).

(continued)

Certain of the Company's affiliates are general partnerships and any subsidiary of the Company that is a general partner in a general partnership is, as such, liable as a matter of partnership law for all debts of that partnership in the event liabilities of that partnership were to exceed its assets.

(6) Investment in Turner Broadcasting System, Inc.

The Company has an investment in the common stock and the convertible preferred stock of Turner Broadcasting System, Inc. ("TBS"). Shares of the preferred stock have voting rights and are convertible into shares of TBS common stock. The holders of those preferred shares, as a group, are entitled to elect seven of fifteen members of the board of directors of TBS, and the Company appoints three such representatives. However, voting control over TBS is held by its chairman of the board and chief executive officer (an unrelated third party). The Company's total holdings of TBS common and preferred stocks represent an approximately 12% voting interest.

The Company's investment in TBS common stock had an aggregate market value of $682 million (which exceeded cost by $372 million) at March 31, 1992. In addition, the Company's investment in TBS preferred stock had an aggregate market value of $822 million (which exceeded cost by $669 million) at March 31, 1992.

(7) Other Investments

Other investments, accounted for under the cost method, and related receivables are summarized as follows:

	March 31, 1992	December 31, 1991
	amounts in millions	
Limited partnership interest in, and related receivables from, Intermedia Partners	$ 73	70
Convertible preferred stock investment	61	61
Other investments and related receivables	98	100
	$232	231

The Company's interest in Intermedia Partners ("Intermedia") is accounted for under the cost method although TCI's ownership approximates 32%. The cost method of accounting is considered appropriate because the limited partners (including TCI) of Intermedia have no voting control over Intermedia's operating and financial policies. Such control rests entirely with the general partner (an unrelated third party).

(continued)

(8) Debt

Debt is summarized as follows:

	March 31, 1992	December 31, 1991
	amounts in millions	
Parent company debt:		
Senior notes	$ 1,529	981
Liquid Yield Option™ Notes (a)	366	360
7% Subordinated debentures (b)	237	245
Bank credit facilities	423	365
Commercial paper	133	38
Other debt	1	1
	2,689	1,990
Debt of subsidiaries:		
Bank credit facilities	4,954	5,728
Commercial paper	9	9
Notes payable	1,510	1,512
Notes payable to Storer	475	475
Convertible notes (c)	48	48
Other debt	142	148
	$ 9,827	9,910

(a) These subordinated notes, which are stated net of unamortized discount of $784 million and $790 million at March 31, 1992 and December 31, 1991, respectively, were issued through a public offering. These notes are not redeemable prior to April 25, 1993, unless the closing sales price of TCI Class A common stock equals or exceeds $27.09 per share for a specified period. Subject to the foregoing, the notes are redeemable, in whole or in part, at the option of the Company at the issue price plus accrued original issue discount. Additionally, the Company will purchase any note, at the option of the holder, as of April 25, 1996, April 25, 2001 or April 25, 2006 at the issue price plus accrued original issue discount through such dates. The Company, at its option, may elect to pay the purchase price in cash and/or shares of TCI Class A common stock. The notes mature on April 25, 2008. At March 31, 1992, these notes were convertible, at the option of the holders, at any time prior to maturity, into an aggregate of 18,975,000 shares of Class A common stock.

(continued)

(b) At March 31, 1992, the 7% subordinated debentures were convertible, at the option of the holders, into an aggregate of 13,902,294 shares of Class A common stock.

Subsequent to March 31, 1992, TCI called for redemption of all of its 7% convertible subordinated debentures due October, 2012. The redemption price is equal to 104.2% of the principal amount thereof, together with accrued interest to the redemption date.

(c) These convertible notes, which are stated net of unamortized discount of $201 million at March 31, 1992 and December 31, 1991, mature on December 18, 2021. The notes require (so long as conversion of the notes has not occurred) an annual interest payment through 2003 equal to 1.85% of the face amount of the notes. At March 31, 1992, the notes were convertible, at the option of the holders, into an aggregate of 41,879,990 shares of Class A common stock. During the three months ended March 31, 1992, certain of these notes were converted into 62,000 shares of Class A common stock.

The Company's bank credit facilities and various other debt instruments generally contain restrictive covenants which require, among other things, the maintenance of certain earnings, specified cash flow and financial ratios (primarily the ratios of cash flow to total debt and cash flow to debt service, as defined), and include certain limitations on indebtedness, investments, guarantees, dispositions, stock repurchases and/or dividend payments.

As security for borrowings under one of its credit facilities, the Company pledged a portion of the common stock (with a quoted market value of approximately $553 million at March 31, 1992) it holds of TBS.

In order to provide interest rate protection on a portion of its variable rate indebtedness, the Company has entered into various interest rate exchange agreements. The Company is exposed to credit losses for the periodic settlements of amounts due under these interest rate exchange agreements in the event of nonperformance by the other parties to the agreements. However, the Company does not anticipate nonperformance by the counterparties and, in any event, such amounts were not material at March 31, 1992.

TCI and certain of its subsidiaries are required to maintain unused availability under bank credit facilities to the extent of outstanding commercial paper.

(continued)

(9) Redeemable Preferred Stocks

	March 31, 1992	December 31, 1991
	amounts in millions	
12-7/8% Cumulative Compounding Preferred Stock, Series A; issued and outstanding 5,022,394 shares (a)	$ 97	97
6-3/4% Convertible Preferred Stock, Series B; issued and outstanding 6,201 shares (b)	18	18
	$115	115

(a) The 12-7/8% Cumulative Compounding Preferred Stock is stated at its redemption value of $19.25 per share. Dividends are cumulative and accrue at 12-7/8% of the redemption value. Accrued dividends are payable quarterly and unpaid dividends are added to the redemption price and accrue dividends until paid. This preferred stock is redeemable at the option of the Company at any time after January 1, 1992 in whole or in part, at the redemption value plus accrued dividends. On January 1, 1999, the Company is required to redeem one-half of the shares then outstanding. The remaining shares outstanding must be redeemed on January 1, 2000.

(b) The 6-3/4% Convertible Preferred Stock is stated at its redemption value of $3,000 per share, and each share is convertible into 204 shares of TCI Class A common stock. Unpaid dividends will be added to the redemption value and will accrue interest, until paid, at 6-3/4% per annum thereafter. Interest charged on unpaid dividends outstanding for two consecutive quarters will increase to 15% per annum. This preferred stock is subject to optional redemption by the Company, in whole or in part, with mandatory redemption by May 25, 1999, in each case at the redemption value plus accrued dividends. The stock is also subject to redemption by the Company at the option of the holder, in whole or in part, at the redemption price plus accrued dividends.

Each of the preferred stock issues are senior to the Company's common stock and equal with each other with respect to the declaration and payment of dividends and liquidating distributions and have no voting rights except the right to vote as a separate class on any amendment to the Company's Restated Certificate of Incorporation (as amended) that would adversely affect the preferences and rights of such holders.

(10) Stockholders' Equity

Common Stock

The Class A common stock has one vote per share and the Class B common stock has ten votes per share. Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock.

(continued)

Stock Options

Two officers (one of whom is also a director) hold options to purchase TCI Class A common stock. The officer who is also a director holds an option to acquire 200,000 shares at an adjusted purchase price of $10.00 per share and the other officer holds an option to acquire 100,000 shares at the same price. These options expire in June of 1993.

The Company had an Incentive Stock Option Plan ("ISOP") which has expired. Options granted under the ISOP (prior to its expiration) have an option price equal to the fair market value on the date of grant, are all currently exercisable and expire five years from the date of grant. Options to purchase 636,556 shares of TCI Class A common stock are outstanding at March 31, 1992, with prices ranging from $10.00 to $17.25 per share. During the three months ended March 31, 1992, options to acquire 35,100 shares were exercised.

In connection with the 1991 merger whereby TCI acquired the remaining minority interest in United Artists Entertainment Company ("UAE"), TCI assumed certain stock options previously granted by UAE to certain of its employees. These options, which are currently exercisable, represent the right, as of March 31, 1992, to acquire 560,249 shares of TCI Class A common stock at adjusted purchase prices ranging from $8.83 to $18.63 per share. During the three months ended March 31, 1992, options to acquire 577,879 shares were exercised and options for 210,630 shares were cancelled. No additional options may be granted by UAE.

Other

The excess of consideration received on debentures converted or options exercised over the par value of the stock issued is credited to additional paid-in capital.

At March 31, 1992, there were 77,519,093 shares of TCI Class A common stock reserved for issuance under exercise privileges related to options and convertible debt securities described in this note 10 and in notes 8 and 9. In addition, one share of Class A common stock is reserved for each share of Class B common stock.

(11) Income Taxes

TCI files a consolidated Federal income tax return with all of its 80% or more owned subsidiaries. Consolidated subsidiaries in which the Company owns less than 80% each file a separate consolidated Federal income tax return. TCI and such subsidiaries calculate their respective tax liabilities on a separate return basis and combine them in the accompanying consolidated financial statements.

Deferred tax expense or benefit results from timing differences in the recognition of revenue and expense for income tax and financial statement purposes and from adjustment of deferred tax credits. The primary source of these differences is excess depreciation and amortization for income tax purposes.

(continued)

The Company has net operating loss carryforwards for income tax purposes which, if not utilized to reduce taxable income in future periods, expire at various dates through 2006. Substantially all such net operating losses have been recognized for financial statement purposes as a reduction of deferred income taxes. To the extent the net operating loss carryforwards are utilized for income tax purposes, deferred tax credits will be restored at the then current rates. Additionally, certain subsidiaries of the Company have net operating loss carryforwards for income tax purposes and these net operating losses are subject to certain rules limiting their usage. Also, one of the Company's subsidiaries (which had filed a separate consolidated Federal income tax return) has a net operating loss carryforward for financial statement purposes.

The Company has available investment tax credits which, if not utilized to offset future Federal income taxes payable, expire at various dates through 2005. Substantially all such investment tax credits have been recognized for financial statement purposes as a reduction of deferred income taxes. To the extent the investment tax credit carryforward is utilized for income tax purposes, deferred tax credits will be restored at the then current rates. The benefits from investment tax credits are recorded when such credits are used to reduce current or deferred income taxes payable. Additionally, certain subsidiaries of the Company have investment tax credit carryforwards and these investment tax credit carryforwards are subject to certain rules limiting their usage. Also, one of the Company's subsidiaries (which had filed a separate consolidated Federal income tax return) has an investment tax credit carryforward for financial statement purposes.

Certain of the Federal income tax returns of TCI and its subsidiaries which filed separate income tax returns are presently under examination by the Internal Revenue Service ("IRS") for the years 1978 through 1991. In the opinion of management, any additional tax liability, not previously provided for, resulting from these examinations, ultimately determined to be payable, should not have a material adverse effect on the consolidated financial position of the Company. The Company pursued a course of action on certain issues (primarily the deductibility of franchise cost amortization) the IRS had raised and such issues were argued before the United States Tax Court. During 1990, the Company received a favorable decision regarding these issues. The IRS has appealed this decision.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which will supersede Statement No. 96, "Accounting for Income Taxes". The Company currently accounts for income taxes under Accounting Principles Board Opinion No. 11, having elected not to adopt Statement No. 96 prior to its required effective date. Statement No. 109 will change the Company's method of accounting for income taxes from the deferred method required under APB No. 11 to the asset and liability method. The Company presently does not know and cannot reasonably estimate the impact of Statement No. 109 on its financial statements. Statement No. 109 is effective for fiscal years beginning after December 15, 1992. The Company has not made a determination whether it will restate any prior years or adopt Statement No. 109 in 1993 on a prospective basis.

(continued)

(12) Commitments and Contingencies

In connection with the acquisition from TCI of a 19.9% minority interest in Heritage Communications, Inc. ("Heritage") by Comcast Corporation ("Comcast"), Comcast was granted the right, beginning in July of 1993, to require TCI to purchase or cause to be purchased from Comcast all shares of Heritage directly or indirectly owned by Comcast for either cash or, at TCI's election, shares of TCI Class A common stock.

The Company has contingent liabilities related to legal proceedings and other matters arising in the ordinary course of business. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

(13) Subsequent Event

Subsequent to March 31, 1992, the Company sold its motion picture theatre business and certain theatre-related real estate assets. The selling price (including liabilities assumed) was approximately $680 million, of which $92.5 million was paid in the form of preferred stock of the buyer. No gain or loss was recognized in connection with this transaction.

TCI's Board of Directors had not adopted a formal plan of disposition in the event the aforementioned sale was not consummated. Accordingly, the operations of the Company's motion picture theatre exhibition industry segment were not reflected as "discontinued operations" pending consummation of the sale. Since the sale was consummated during the second quarter of 1992, such operations will be reclassified and reflected as "discontinued operations" in the Company's Form 10-Q for the quarterly period ended June 30, 1992.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(1) Material changes in financial condition:

The Company had approximately $672 million in unused lines of credit at March 31, 1992, excluding amounts related to lines of credit which provide availability to support commercial paper. Although the Company was in compliance with the restrictive covenants contained in its credit facilities at said date, additional borrowings under the credit facilities are subject to the Company's continuing compliance with the restrictive covenants (which relate primarily to the maintenance of certain ratios of cash flow to total debt and cash flow to debt service, as defined) after giving effect to such additional borrowings. See note 8 to the accompanying consolidated financial statements for additional information regarding the material terms of the Company's lines of credit.

In connection with its merger with TCI, Heritage entered into certain credit facilities. Borrowings under such credit facilities (which aggregated $383 million at March 31, 1992) are due in June of 1992. The Company has received commitments from certain banks which, in the aggregate, are sufficient to refinance such borrowings. Such refinancing is expected to occur during the second quarter of 1992.

As security for borrowings under one of its credit facilities, the Company pledged a portion of the common stock it holds of TBS. Borrowings under this credit facility (which amounted to $250 million at March 31, 1992) are due in August of 1994. On or before such date, assuming there has been no significant decline in the value of the underlying collateral (approximately $553 million at March 31, 1992), the Company expects to refinance these borrowings and extend the maturity date. However, there can be no assurance that such a refinancing will be accomplished on terms acceptable to the Company.

The Company owns an equity interest in SCI (see note 5 to the accompanying consolidated financial statements). SCI is obligated to repay $398 million in principal amount of its zero coupon senior notes on December 5, 1992. However, SCI does not expect cash flows generated from operations and available borrowing capacity under its existing credit agreements to be sufficient to satisfy the aforementioned 1992 debt obligation. As a result, SCI is pursuing various plans to meet this obligation, including the possibility of a transaction that would result in the ownership of its cable systems being split, on a tax-free basis, between the Company and the other shareholder. This transaction is expected to occur during 1992, although there can be no assurance that it will occur during 1992 or at all since consummation of the transaction will require the obtaining of private and/or public debt financing, certain regulatory and other consents and approvals, and the execution by the parties of binding agreements. In the event this transaction cannot be accomplished, SCI will need to seek alternative financing.

Other than SCI, the Company's various partnerships and other affiliates accounted for under the equity method generally fund their acquisitions, required principal repayments and capital expenditures through borrowings under their own credit facilities (which are generally not guaranteed by the Company) and through net cash provided by their own operating activities.

(continued)

(1) Material changes in financial condition (continued):

Certain subsidiaries' loan agreements contain restrictions regarding transfers of funds to the parent company in the form of loans, advances or cash dividends. The amount of net assets of such subsidiaries exceeds the Company's consolidated net assets. However, net cash provided by operating activities of other subsidiaries which are not restricted from making transfers to the parent company have been and are expected to continue to be sufficient to enable the parent company to meet its cash obligations.

Management believes that available lines of credit, net cash provided by operating activities, proceeds from disposition of assets and the Company's ability to obtain additional financing will provide adequate sources of short-term and long-term liquidity in the future.

(2) Material changes in results of operations:

Cable television revenue increased by approximately 7% for the three months ended March 31, 1992, as compared to the corresponding period of the prior year. Approximately 3% of this increase resulted from growth in subscriber levels within the Company's cable television systems and an additional 4% was attributable to the increase in prices charged for cable television service.

Certain proposed changes to the legislative and regulatory environment in which the cable television industry operates could limit future increases in prices charged for cable television service. The effect of such limitations, if imposed, on the future growth of cable television revenue of the Company cannot be predicted at this time.

Operating costs and expenses have remained relatively constant as a percentage of revenue, although it is anticipated that the Company's cost of programming will increase in the future as program suppliers increase their rates and additional sources of programming become available. Additionally, certain proposed changes in the legislative and regulatory environment in which the cable television industry operates could have the effect of increasing certain programming costs. The Company cannot determine whether and to what extent increases in the cost of programming will affect the prices charged by it for its cable television services or the manner in which these services are offered.

One measure of liquidity is commonly referred to as "interest coverage". Interest coverage, which is measured by the ratio of operating income before depreciation and amortization ($405 million and $387 million for the three months ended March 31, 1992 and 1991, respectively) to interest expense ($200 million and $224 million for the three months ended March 31, 1992 and 1991, respectively), is determined by reference to the consolidated statements of operations. The Company's interest coverage ratio was 203% and 173% for the three months ended March 31, 1992 and 1991, respectively. Management of the Company believes that the foregoing interest coverage ratio is adequate in light of the consistency and nonseasonal nature of its cable television operations and the relative predictability of the Company's interest expense, more than half of which results from fixed rate indebtedness.

(continued)

(2) Material changes in results of operations (continued):

The Company's net loss (before preferred stock dividends) of $17 million for the three months ended March 31, 1992 represented an improvement of $8 million as compared to the Company's net loss for the corresponding period of 1991 due primarily to improved operating results by the Company in its cable television business. Also, the general decline in interest rates had a positive impact on the Company's net results. These same factors led to an improvement in the Company's interest coverage ratio (see preceding paragraph).

Subsequent to March 31, 1992, the Company sold its motion picture theatre business and certain theatre-related real estate assets (see note 13 to the accompanying consolidated financial statements). Accordingly, the operations of the Company's motion picture theatre exhibition industry segment will be reclassified and reflected as "discontinued operations" in the Company's Form 10-Q for the quarterly period ended June 30, 1992.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There were no material legal proceedings instituted during the quarter ended March 31, 1992 to which the Company or any of its consolidated subsidiaries is a party or of which any of their property is the subject.

There were no material developments during the quarter ended March 31, 1992 in any of the existing legal proceedings which were previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits - None.

(b) Reports on Form 8-K filed during the quarter ended March 31, 1992:

Date of Report	Item Reported	Financial Statements Filed
January 21, 1992 (as amended by Form 8 amendment dated April 7, 1992)	Item 5	None
February 28, 1992	Item 5	None
March 31, 1992	Item 5	None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TELE-COMMUNICATIONS, INC.

Date: May 12, 1992

By: ____________________________
Donne F. Fisher,
Executive Vice President
(Principal Financial Officer)

Date: May 12, 1992

By: ____________________________
Gary K. Bracken, Controller
and Senior Vice President
(Chief Accounting Officer)